



# Communications Market Report 2012

Research Document

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# Introduction

This is Ofcom's ninth annual *Communications Market Report*. The report contains statistics and analysis of the UK communications sector and is a reference for industry, stakeholders, and consumers. The report also provides context to the work that Ofcom undertakes in furthering the interests of consumers and citizens in the markets we regulate.

The report contains data and analysis on broadcast television and radio, fixed and mobile telephony, and internet take-up and consumption. Ofcom gained the responsibility and powers to regulate postal services in the Postal Services Act 2011, and for the first time this report contains information on the postal market.

As Digital Switchover nears completion in October 2012, 98% of UK households now have digital television. Total internet access has edged up to eight in ten homes, in part aided by the continued rise of smartphone ownership (39%). Furthermore, each UK household on average owns three different internet-enabled devices.

With the growth in smartphone users, there has been an increase in the consumption of mobile data. Consumers' use of mobile data more than doubled in the 18 months to January 2012, while the number of SMS and MMS messages grew to an average of 200 messages per person per month. By contrast, the volume of voice calls on fixed lines continued to shrink, and, for the first time, the total call minutes made from mobile phones also fell.

These are just some of the findings contained within this year's report. The first section of the report examines 'the rise of text-based communications' (page 33) and the differences in take-up and use between older and younger people of various communications services in 'the generation gap' (page 49). The report goes on to detail the attitudes and behaviours of consumers to tablet computers and e-readers (page 61) before considering the media intentions of consumers in the forthcoming London 2012 Olympic and Paralympic Games (page 75). This section concludes by comparing the nations' communications markets with the UK average and offering insight into the developing hyperlocal media sector.

The remainder of the report covers television and audio-visual content (page 113), radio and audio content (page 181), internet and web-based content (page 219), telecoms and networks (page 279), and post (page 359). In each we set out in detail an analysis of industry and consumer data.

Finally, to make this report and its resources more useful to stakeholders, we are publishing all of the data and charts in a searchable resource. This can be found at [www.ofcom.org.uk/cmruk](http://www.ofcom.org.uk/cmruk). Companion reports for each of the UK's nations are once again published alongside this report; these can be found at [www.ofcom.org.uk/cm12](http://www.ofcom.org.uk/cm12).

We publish this report to support Ofcom's regulatory goal to research markets constantly and to remain at the forefront of technological understanding; it also fulfils the requirements on Ofcom under Section 358 of the Communications Act 2003 to publish an annual factual and statistical report. It also addresses the requirement to undertake and make public our consumer research (as set out in Sections 14 and 15 of the same Act).

The information set out in this report does not represent any proposal or conclusion by Ofcom in respect of the current or future definition of markets. Nor does it represent any proposal or conclusion about the assessment of significant market power for the purpose of the Communications Act 2003, the Competition Act 1998 or any other relevant legislation.

# Key points: the market in context

## Key market trends (page 23)

- **UK communications industry revenue decreased in nominal terms by 0.3% in 2011 to £53.2bn<sup>1</sup>.** While total operator reported telecoms revenues fell by 1.9% in 2011 to £39.7bn, TV revenues increased by 4.9% to £12.3bn, and radio revenues grew by 3.5% to £1.2bn.
- **Availability of superfast broadband services increased during 2011.** BT and Virgin Media's superfast broadband services are available to an estimated 60% of UK homes (March 2012), which represents a seven percentage point increase on the previous year.
- **As digital switchover nears completion in 2012, digital terrestrial television availability rose to 97%<sup>2</sup>,** a rise of 12 percentage points year on year.
- **Broadband take-up continues to increase steadily and in Q1 2012 stood at 76% of UK households,** up two percentage points compared to the same period last year. This figure comprises those households with fixed and/or mobile broadband<sup>3</sup> home access. While fixed broadband take-up rose to 72% in Q1 2012, mobile broadband decreased to 13%.
- **Take-up of connected devices has increased. Smartphone ownership rose to 39% of UK adults in Q1 2012, up 12 percentage points on 2011. Tablet ownership rose to 11% of UK households, up 9pp year on year, whereas smart TV<sup>4</sup> ownership stands at 5% of TV homes.** Internet access via a mobile phone *only* remains low; just 3% of smartphone owners rely solely on their phone for internet access, with no change in this figure year on year.
- **Total home internet access continued to edge up to reach 80% of UK households in Q1 2012.** Home internet access is defined as a net figure for fixed broadband/mobile broadband/narrowband and smartphone access.
- **Fixed voice and broadband is the most popular communications bundle.** Twenty seven per cent of households now take this type of bundle, whereas 19% of UK homes have a triple-play bundle of fixed voice, broadband and multichannel TV (up 3 pp on 2011). Overall, take-up of bundled communication services continues to grow, with 57% of UK homes taking a bundle in Q1 2012, against 53% in 2011.

## The rise in text-based communications (page 33)

The means by which UK consumers can communicate has transformed over the past five years, as new digital devices and services such as smartphones and social networking grow in popularity. Ofcom's new research explores UK adults' personal communications preferences and use.

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<sup>1</sup> Based on industry revenue measured by Ofcom. This figure excludes the postal market. Mail market revenues stood at £6.7bn in 2011.

<sup>2</sup> Calculations based on the estimated proportion of homes that can receive 17 services.

<sup>3</sup> Mobile broadband is defined as access via from a mobile network - connecting via a USB stick or dongle, or built-in connectivity in a laptop or netbook or tablet computer.

<sup>4</sup> Smart TVs are defined here as those with inbuilt internet functionality.

- **UK adults of all ages say that they prefer to communicate face-to-face with their friends and family.** Eighty-three per cent of adults prefer to speak in person to friends and family. This applies to younger and older people alike, with 75% of 16-24s saying this is the case, compared to 85% of those aged 65+.
- **However, two-thirds (64%) of adults say that technology has changed the way they communicate, while just under six in ten (57%) say that new communications methods have made their lives easier.** Those aged under 35 are the most likely to agree with this statement – 72% of 16-24s and 73% of 25-34 year olds. Older people are less likely to agree – only 30% of over-65s agreed that new communications methods have made life easier.
- **Looking at the overall ways in which people communicate with friends and family on a *daily* basis, 68% use *any* text-based methods and 63% use *any* voice-based services<sup>5</sup>,** whereas around half (49%) catch up face-to-face.
- **Overall, 96% of 16-24 year olds say that they use *any* text-based services to communicate with friends and family on a *daily* basis, compared to 21% of those aged over 65.** Any voice-based services are used in this context by 74% of 16-24 year olds and almost half (49%) of over-65s. Whereas 63% of 16-24s catch up face to face on a daily basis compared to 37% of those aged 65+.
- **Text messages are the most-used method for daily communication with family and friends. Fifty eight per cent of UK adults text friends and family at least once a day.** This is followed by just under half (49%) communicating face-to-face and a similar proportion talking on a mobile (47%) every day. Social networking is used daily to communicate by about one third (32%) of adults.
- **For younger people, text-based services dominate communication with friends and family on a daily basis. Around nine in ten 16-24 year olds send texts, and three-quarters (73%) use social networks.** Face-to-face communication is less popular (63%) as are mobile phone calls (67%) and landline calls (15%).
- **This contrasts with people aged 65+, for whom landline calls are the most popular form of personal communication (42%),** followed by 37% who catch up face-to-face, and 17% call on a mobile on a daily basis. Fifteen per cent of over-65s use text messages daily while just 4% use social networking.
- **Overall, post is the preferred way of sending a greeting, such as for a birthday, with 58% of UK adults doing this.** However, for 16-24 year olds it is less popular (31%) than text-based digital communications such as text messages (53%) and social networking (41%).
- **Claimed use of post has diminished in the past two years, while digital methods such as email and text messaging have gained in popularity.** The largest claimed increases are in use of email and text messages, both with 17% of respondents<sup>6</sup> claiming to use them more. Claimed use of post has declined dramatically (by 30% of respondents<sup>7</sup>), while the net use of landline calls has declined slightly (4%).

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<sup>5</sup> Text based services include text messaging, social networking, emailing, instant messaging, Twitter, post. Voice based services include calls on a landline, mobile phone or VOIP.

<sup>6</sup> This is a net figure.

<sup>7</sup> This is a net figure.

- **16-24 year olds say that they are text messaging and social networking more than in the past.** The biggest claimed increase in communication methods used in the past two years among 16-24 year olds is social networking (31% net claimed increase), followed by text messaging (+ 23%) and instant messaging (+12%). In common with the wider population, the largest claimed net decrease is in the use of post (- 25%).
- **Face-to-face is the most-used and preferred method for communication with businesses.** Three in ten (28%) UK adults say that they communicate with businesses such as banks or other services face-to-face on a weekly basis, followed by 24% who email, and around one fifth who call via a mobile or fixed line. Around one in ten (13%) use postal services. Almost nine in ten (88%) respondents indicate that they prefer to speak with a real person than an automated service.

### The generation gap (page 49)

While there have been rapid advances in the media communications market over the past decade, differences still remain between older and younger people in terms of take-up and use of various services.

- **Television has been a highly resilient medium over the past 10 years. According to BARB, UK adults spent 4.3 hours per day watching television in 2011.** Since 2002 viewing has increased among audiences aged 55 and over, and remained stable among 16-24s (2.8 hours per day). However, viewing among 25-34s decreased from 3.5 to 3.3 hours per day between 2005 and 2011.
- **The average amount of time UK adults spend listening to radio each week has dropped from 24.4 to 22.5 hours over the past ten years, according to RAJAR.** This decrease has been largely driven by a drop among 15-24 year old listeners, from 21.8 hours in 2001 to 17 hours of listening a week in 2011. There has been a less pronounced drop for the 65+ audience; from 26.6 hours a week in 2001 to 25.8 hours in 2011.
- **The proportion of 16-24s who live in homes where mobile is the sole form of telephony is more than double the UK average.** While mobile-only homes have risen from 10% in 2006 to 15% in 2012, the increase has been greatest in the 16-24 and 25-34 age groups. Thirty three per cent of 16-24s and 26% of 25-34s now live in mobile-only households, compared to 1% of over-75s.
- **The rise in mobile-only homes among younger people is likely to be linked to the increase in take-up of smartphones.** Take-up is highest among younger age groups; 66% of those aged 16 to 24, and 60% of those aged 25 to 34 have a smartphone, compared to 2% of those aged 65 and over (Q1 2012).
- **16-24s are most likely to choose their mobile as the medium they would miss most (40%), compared to 1% of the 65+ age group (2011).**
- **Eighty per cent of UK homes now have internet access. While penetration is high among those aged under 55, it is much lower among the over-65s (46% in Q1 2012).**

### Tablets take off (page 61)

- **Tablet ownership has risen rapidly in the past year, from 2% of UK households in Q1 2011 to 11% in Q1 2012.** This growth looks set to continue as around one in

six (17%) households say they intend to buy a tablet in the next year. Our research indicates that two-thirds (65%) own a tablet that connects to the internet via a WiFi connection only, while 33% own a WiFi and 3G-enabled version.

- **Ownership is higher among certain groups including: those aged 45-54 (16%), households with children (16% take-up) and those in AB socio-economic groups (19%).**
- **The most common motivation for purchase is entertainment. Fifty-six per cent of consumers buy a tablet for this reason.** Half of all UK adults (53%) say that easy access to the internet is a reason for purchase, while 52% state “ease of carrying around” as a reason for initial purchase. However, 45% said they didn’t really need one, but bought it as a treat for themselves.
- **Even though a key reason for purchase is portability, 87% of tablet owners say they mainly use it at home.**
- **Tablet computers are used on a regular basis. Seventy-four per cent claim to go online on their tablet every day, or most days.**
- **Tablets are affecting online use, with 37% claiming that they browse the internet more than they did before owning a tablet.** On the other hand, owning a tablet often leads to using other devices (such as a laptop or desktop PC) less. Thirty-seven per cent use their laptop less since owning a tablet and a third (33%) use their desktop PC less.
- **Tablets are not solely for personal use; two-thirds of owners (66%) share them with family, friends and others.**
- **Tablet owners have a strong relationship with their new device** – over a third (34%) say they “couldn’t live without their tablet”. Around nine in ten (87%) of consumers are satisfied with their tablet.

### **E-readers increase reading (page 70)**

- **One in ten (10%) UK adults now have an e-reader; up from 3% in 2011.** Those aged 35-44 are the most likely to own an e-reader (15%), whereas those over 65 are least likely (6%).
- **Portability is the most-cited reason for buying an e-reader.** Fifty-three per cent of owners say bought an e-reader because it is easy to carry around, 50% so they could easily carry lots of books on holiday, and 45% as it is lightweight.
- **Although it is a portable device, the majority of owners (67%) primarily use their e-reader at home,** 15% of consumers primarily use it while travelling, and 14% primarily use it on holiday.
- **While almost all consumers use their e-reader to read books, three in ten (29%) have used it to read magazines or newspapers.**
- **E-readers have a positive impact on the amount people read.** Forty-one per cent claim to read more since owning an e-reader. This trend is most prominent among 18-34 year-olds - 53% claim they have read more since having an e-reader.

- **Six in ten (62%) said they read less paper-based material since owning an e-reader**, driven by a decrease in reading paperbacks (60%). One in ten (10%) say they read fewer paper magazines and 8% said they read newspapers less.

## Countdown to London 2012 (page 75)

The London 2012 Olympic and Paralympic Games is likely to be a significant event in the UK media and communications landscape in 2012. As well as analysing past viewing behaviour during the 2004 and 2008 Games, we commissioned new research into the media intentions of UK consumers for the London 2012 Games (the Games). This research was conducted among a nationally representative sample of 2192 UK adults, in May 2012, well in advance of the start of the competition, in order to be included in this report. Actual levels of media use and types of devices used may differ from the levels recorded in this research.

- **Past Olympics have attracted a large number of television viewers.** Forty-six million people aged four and over watched coverage of the 2004 Olympics in Athens and 41 million watched the 2008 Olympics in Beijing<sup>8</sup>. Total television viewing during these events was up compared with the same period in the previous years.
- **According to Ofcom's research (May 2012), 77% of UK adults say they are likely to follow the Games on any medium.** This equates to an estimated 39 million UK adults. Among younger people, 79% of 16-24s say they are likely to follow coverage of the Games. Around a third (35%) of UK adults say they are likely to follow as much of the Games as possible.
- **Around three-quarters (74%) of UK adults say they intend to follow coverage on TV.** This is in line with viewing figures from previous years – according to BARB, 75% of adults followed coverage on television in 2008 and 84% in 2004. Ofcom's research was conducted over two months before the start of the Games so actual viewing may differ from anticipated levels<sup>9</sup>.
- **One in five adults (19%) say they intend to follow the Games online, whether through a computer (12%), tablet (6%) or a mobile phone (8%).** Sixteen per cent say they will use newspapers and magazines, whereas 12% say they will listen on the radio.
- **Online use is anticipated to be higher among younger people**, with 32% of 16-24 year olds intending to follow coverage of the Games online, whether through a computer, tablet or mobile.
- **Most people say that they intend to follow the Games at home.** Around one in four people in full-time employment say that they are likely to watch or listen to the Games coverage at work.
- **UK adults express the greatest interest in the athletics coverage, while the football is of more interest to men, and gymnastics and swimming to women.**
- **Fifty-three per cent of adults agree that "new technology is going to make accessing coverage of the Games easier".** This rises to 64% of 16-24s.

<sup>8</sup> Source: BARB 2004 and 2008

<sup>9</sup> Barb analysis of actual viewing behaviour will be included in Ofcom's ICMR due for publication in Autumn 2012



- **Around a quarter of UK adults (26%), think that “social networking sites like Facebook and Twitter are going to make following the Olympic and/or Paralympic Games easier”.** This rises to 48% of 16-24s.

### The nations communications markets (page 91)

- **Digital terrestrial television (DTT) coverage is rising as digital switchover takes effect; 97% of homes across the UK can now receive the signal<sup>10</sup>.** Coverage is lowest in Northern Ireland (66%), with digital switchover not due to start there until October 2012.
- **Superfast broadband services are available to an estimated 60% of UK homes (Q1, 2012).** There are significant variations in coverage across the nations, with availability highest in Northern Ireland (94%), compared to 34% in Wales (where it is lowest), whereas Scotland stands at 42% of homes.
- **Scotland saw the largest year-on-year increase in broadband<sup>11</sup> take-up in the nations.** It rose by seven percentage points to 68% of households. In Wales and Northern Ireland home broadband take-up stands at 68% and 69% respectively.
- **Smartphone ownership increased to 32% in Scotland, 39% in Wales and 34% in Northern Ireland, compared to the UK average of 39%.** Tablet ownership stands at 11% of UK adults, and each nation shows similar take-up.
- **The trend of purchasing two or more communications services from the same supplier has continued across the UK this year.** Fifty-seven per cent of UK adults now buy communications services in this way, with the largest increase over the past year being in Northern Ireland (up five percentage points to 51%).
- **Across the UK, nearly 6 in 10 adults (58%) use the postal service regularly to send mail, while 3 in 10 (31%), regularly send parcels or packets.** More consumers in Wales claim to send post regularly, compared to the other nations (69%).
- **TV viewing share among the main five PSBs averaged 54% in 2011 across the UK, with similar levels of viewing to the PSBs in each nation.**
- **BBC radio services attracted a 55% listening share in 2011.** This ranged from 61% share in Wales to 45% in Scotland and 46% in Northern Ireland (where commercial local/nations radio is popular).

### Hyperlocal websites (page 103)

Local community, or ‘hyperlocal’ websites, can be described as online news or content services pertaining to a town, village, single postcode or other small, geographically defined, community.

- **Around one in seven (14%) UK adults say that they use local community websites at least monthly.** Adults aged between 25-34 are more likely to use these services (22%), while those aged over 65 are less likely (7%).
- **To those that use them, local community websites are important, with 37% of users rating the importance of services as 7 or more out of 10.** Although not as

<sup>10</sup> Calculations based on the estimated proportion of homes that can receive 17 services.

<sup>11</sup> This figure comprises those households with fixed and/or mobile broadband.

high as the importance ascribed by viewers (59%) to local news on television, this is higher than other services such as local newspaper websites (27%).

- **There are more than 400 hyperlocal websites in the UK producing original news stories, the vast majority of which (93%) are in England.** In general, sites are clustered around large urban conurbations, with London (77 websites), Birmingham (28 websites) and Bristol (8 sites) all particularly well served.
- **Collectively they produce almost 2500 stories a week, or the equivalent of 5.6 stories per week per site.**

## Key points: TV and audio-visual

- **The UK television industry generated £12.3bn of revenue in 2011, an increase of £579m (4.9%) on 2010<sup>12</sup>**, driven by continued growth in subscription revenues (up 8.3% year on year to £5.2bn) coupled with an increase in advertising revenues.
- **The recovery in the TV advertising market seen in 2010 was sustained in 2011, with ad revenues up 2.1% to £3.6bn.** Much of this was driven by the commercial multichannels (up 1.5% to £837m) and the PSB digital portfolio channels (up 8.4% to £561m). However, among the main commercial PSB channels, only Channel 5's income from advertising experienced growth in 2011 (up 30% to £281m).
- **Spend on content by all UK TV channels in 2011 reached £5.5bn, up by 1.6% year on year in nominal terms.** Sports and film channels spent £1.7bn on network programmes, demonstrating the highest relative increase over the period (12%) and accounting for 32% of the total spend.
- **Spend on PSB network programming across the five main channels and the BBC digital portfolio channels declined by 8% in 2011, to £2.8bn,** continuing the trend in year-on-year real-term declines experienced since 2004, when total spending among these channels reached a high of £3.7bn.
- **Digital TV take-up in the UK is almost universal as digital switchover (DSO) enters its final phase.** The percentage of UK homes with digital TV increased by three percentage points, from 93% in Q1 2011 to 96.2% in Q1 2012.
- **On average, viewers watched four hours of television per day in 2011; this has remained stable year on year.**
- **The five main PSBs and their portfolio channels together attracted 73.5% of total viewing in multichannel homes,** an increase of 2.1pp since 2010. This is driven by the rise in viewing to the PSBs' portfolio channels, which now account for 20.3% of total viewing (up 2.9pp on 2010), whereas viewing to the five main PSB channels together has decreased slightly over this period to represent 53.2% share of viewing hours in 2011.
- **In Q1 2012, over a third (37%) of UK adults with home internet watch online catch-up TV,** a small increase of 2 pp versus the same period in 2011. One in five (21%) UK adults with home internet claim to watch online catch-up TV at least once a week. Overall, 16-24s are most likely to use catch-up services (48%).
- **TV sets with inbuilt internet functionality are growing in popularity, with 5% of TV households owning a smart TV.** Smart TVs represent one-fifth (2.9 million sets) of all TVs sold since 2010. Although almost half (47%) of smart TV owners said they had not been concerned whether or not the set was internet connected when making their purchase, over two-thirds (65%) claimed to have subsequently used the internet connection on their smart TV.
- **Smart TVs are used most for watching catch-up TV.** Among users of smart TVs, 51% had used their set to watch catch-up TV, while activities like social networking (25%) and online shopping (13%) were much less commonly undertaken.

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<sup>12</sup> Figures are expressed in nominal terms.

## Key points: radio and audio

- **Total UK radio industry revenue was £1.2bn in 2011, up by 3.5% in a year.** Recorded music revenue was £1.07bn for 2011. This compares with television industry revenue of £12.3bn for the same year.
- **Commercial radio revenue increased to £456m for 2011, the second consecutive year of growth.** Growth was driven by national advertising revenues, which rose 4.0% to £220m.
- **On average, 89.8% of the UK population tuned in to the radio each week in the twelve months to Q1 2012.** This is a year-on-year decrease of 1.8pp from the record weekly reach figure recorded by RAJAR in the same period in 2011.
- **On average, radio listeners in the UK listened to 22.5 hours of radio each week in 2011, up by 0.4 hours on 2010.** Among 15-24s, despite an increase of 0.7 hours in the past year, time spent listening has fallen by 22% since 2001. Then, 15-24s listened to 21.8 hours of radio in the average week; by 2011 this had fallen to an average of 17 hours.
- **BBC network stations account for 46% of listening hours, while national commercial stations' share of listening continued to grow.** The national commercial sector has seen consecutive increases in its share of listening since 2009, rising to 11.8% in 2011.
- **The popularity of BBC local/nations' stations has fallen over the past five years;** their share of listening dropped by 1.2pp to 8.7% between 2007 and 2011.
- **Digital listening has increased by 11pp over four years.** Digital listening has increased at around 4pp each year for four years and accounted for 29.2% of listening in Q1 2012. Listening through a DAB set accounted for the largest component of digital listening; 19.1% of total hours, while digital TV and online accounted for a further 4.4% and 3.9%.
- **More than four in ten UK adults claim to own a DAB radio set.** RAJAR figures show that 42.6% of UK adults claim to own a DAB set at home, a 4.4pp year-on-year increase.
- **BBC Radio 4 Extra attracted the most listeners of any digital-only station.** Formerly BBC Radio 7, BBC 4 Extra's average weekly reach increased by 29.6% to 1.5 million adult listeners in Q1 2012, making it the UK's most popular digital-only station.
- **The average income for a community radio station fell by 8.3% to £60,250.** The main source of community radio income is grants (33% of average income), followed by advertising and sponsorship (26% of average income). Total revenue for the sector increased by 5% to £10.5m – driven by the increase in the number of community radio stations broadcasting.
- **Recorded music revenues fell by 4.4% in 2011.** Revenues from digital music sales increased by 12%, but the sales from physical music fell further than the rise from online sales. Digital sales accounted for 33% of recorded music revenue, a 7pp increase on 2010. Sales of singles increased by 10%, with almost all of these sales in digital format.

# Key points: internet and web-based content

- **Two-fifths of UK adults are now smartphone users.** Take-up has risen from 27% in 2011 to 39% in Q1 2012. Take-up levels are highest among younger age groups (16-24s and 25-34s) and those in ABC1 households.
- **Over four in ten smartphone users say their phone is more important for accessing the internet than any other device.** Smartphones are increasingly being used in different ways in consumers lives – to help them shop (57%), check-in on a social network (30%), tweet (23%) and watch TV/film content (22%).
- **Home internet access<sup>13</sup> went up by three percentage points to 80% - the largest rise was among 65 to 74 year olds,** increasing nine percentage points to 64% between Q1 2011 and 2012.
- **Each household in the UK has on average three different types of internet-enabled device.** Only one household in a thousand owns all ten devices surveyed, but 57% own three or more types of connected device.
- **Year-on-year growth of the UK online audience has slowed to 1.6%.** Since January 2004 the number of desktop/laptop internet users in the UK rose by an average of 6.2% each year to 39.7 million in January 2012. However, annual growth has slowed from 10.3% in January 2009 to just 1.6% in January 2012. Average time online per month per internet user stood at 23.5 hours for 2011.
- **Consumers are beginning to use social networks to navigate content online.** With two-thirds of internet users on Facebook, it generates almost a quarter of all referred traffic to YouTube (23.7%), in contrast to Google's 32.3%. Facebook also refers traffic to other popular websites: BBC (11.2%), eBay (6.7%), Twitter (3.8%), and Wikipedia (3.6%).
- **Time on video-sharing sites has increased, as users spend longer on YouTube.** In January 2012, 3.7 billion videos were viewed on YouTube in the UK. While its unique audience remained stable at 19.8 million unique visitors per month on average, the time per person on the site increased by 42% between March 2011 and March 2012, to 1.5 hours.
- **The value of retail sales transacted online was £2.6bn in February 2012.** This represents year-on-year growth for the e-commerce sector of 30%. The high street still accounts for the majority of revenues, but its growth has been much less.
- **Spend on internet advertising is greater than on any other category of advertising.** In 2011 advertising spend on the internet was £4.8bn, greater than television at £4.2bn, and press at £3.9bn (Warc figures).
- **As consumers have adopted the internet on their mobile, so have advertisers.** While still relatively small, expenditure on mobile advertising rose to £203m in 2011. Since 2008, mobile advertising revenues have grown seven-fold, while the proportion of adults using their mobile to go online has doubled; from 20% to 39%.

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<sup>13</sup> Home internet is defined as a net figure for fixed broadband/mobile broadband/narrowband and smartphone access.

## Key points: telecoms and networks

- **Total operator-reported telecoms revenues fell by 1.9% in 2011 to £39.7bn.** The main factor behind this fall was wholesale services, which fell by 8.9%. Retail service revenues increased by 0.2% during the year.
- **In 2011, households spent an average of £65.04 a month on telecoms services, £3.02 less than in 2010.** This equated to 3.0% of average total household spend.
- **The average cost of making a mobile voice call fell to broadly the same level as a fixed voice call in 2011.** The average cost of a mobile-originated voice call in 2011 was 8.5 pence per minute, just 0.3 pence per minute (3.1%) more than the 8.3 pence per minute average for fixed-originated voice calls.
- **Voice revenues declined, in contrast to data revenues.** Fixed voice revenues declined by 4.9% in 2011 to £8.9bn, while mobile voice revenues fell by 0.9% to £10.5bn. Mobile messaging and handset data revenues increased 5.5% to £4.6bn. Fixed data revenues (broadband and narrowband) increased by 6.8% in 2011 to £3.4bn, with broadband contributing the vast majority. (All figures are retail.)
- **The volume of voice calls shrank for both fixed and mobile telephony, while the volume of mobile calls exceeded fixed.** The number of minutes of calls made from fixed telephones was down 10.0% in 2011, while the number of minutes of calls made from mobile phones fell for the first time: down 1.1% on 2010. For the first time, over half (52%) of all call volumes were made from a mobile.
- **People in the UK sent an average of 200 SMS and MMS messages per month in 2011.** The average number of text and picture messages sent per UK inhabitant continued to increase in 2011, growing by 17% to 200 messages per month.
- **Growth in smartphone take-up resulted in increasing use of mobile data in the year to Q1 2012.** The average time spent using mobile data services was 2.1 hours a month in 2011, 25 minutes per month (24.7%) more than in 2010, while the volume of data consumed more than doubled in the 18 months to January 2012.
- **Nearly half of all mobile subscribers are on a contract.** The migration from pre-pay to contract continues, as the proportion of active mobile subscribers on contracts increased by 3.5 percentage points to just over 49%.
- **A third of people aged 16 to 24 lived in homes where mobiles were the sole form of telephony in Q1 2012,** more than twice the 15% average across all adults. The figure among 25-34 year olds was also high, with over a quarter (26%) living in a mobile-only household.
- **BT and Virgin Media's superfast broadband services were available to around 60% of UK homes (March 2012).** This was seven percentage points higher than a year previously, mainly as a result of BT's ongoing fibre-to-the-cabinet rollout. At the end of March 2012 there were 1.4 million UK superfast broadband connections; 6.6% of all connections.
- **The total number of UK fixed broadband connections passed 20 million for the first time in 2011.** In addition, the number of mobile broadband connections passed 5 million during the year, and by the first quarter of 2012 76% of UK homes had a broadband connection of some description, with most of these (84%) relying solely on a fixed broadband connection.



## Key points: post

- **The decrease in postal revenues has slowed, following years of decline.** In 2011, revenue increased in nominal terms for the first time in four years (to £6.7bn), driven by price increases for Royal Mail bulk mail products. Mail volumes and revenues have been declining since 2007, although annual price increases for Royal Mail products have meant that revenue has fallen at a slower rate than volumes.
- **Mail volumes continued to fall.** Mail volumes have been falling consistently for the past five years, and declined by 25% between 2006 and 2011, due to the effects of negative economic growth and senders using electronic alternatives instead of physical mail. Royal Mail delivered 16.6 billion items; approximately 58 million items each working day.
- **Direct mail volumes have remained steady as its share of total volume has increased.** After consecutive years of decline between 2006 and 2010 (including a year-on-year decline of 18% between 2008 and 2009), direct mail volumes remained broadly stable between 2010 and 2011. Direct mail is a key use of mail, and accounts for around a fifth of total mail volume. Expenditure on direct mail remained stable at £1.7bn in 2011, with spend on postage accounting for 44% of the total.
- **Growth in access volumes has slowed.** Year-on-year growth has now slowed to less than 4%, indicating that the majority of the customers who have been able to take advantage of the benefits of switching their volumes to an access operator have now done so. Access mail refers to bulk mail that is collected and transported by operators other than Royal Mail before being handed over to Royal Mail for final delivery. Access now accounts for 44% of total mail volume.
- **Almost half of residential postal users in the UK said they use First Class stamps all of the time.** This is despite only one in ten saying that all of their mail needed to arrive the day following posting.
- **Consumers receive more post than they send.** Adults in the UK claim to receive an average of 8.5 letters or cards in an average week, compared to an average of approximately 3.2 letters or cards sent in an average month. This illustrates that residential consumers send less than 10% of mail in the UK.
- **Consumers aged 45 and over are more likely to send more post.** Fifty-two per cent of adults aged 65-74 send three or more letters a month, compared with 18% of 16-24s. In the 16-24 age group, 48% either don't, or don't always, send letters each month, compared to around a quarter of adults aged 45+.
- **Among residential consumers, more post is sent for social than for formal reasons.** Consumers are more likely to send social mail - invitations, birthday cards and postcards (58% say they send these at least once a month) - than more formal types of mail such as legal, medical or insurance documents, or payment of bills (43% say they send these).
- **One in five adults in the UK sends at least one parcel a month.** Around one in five adults claim to send one or more parcels each month (19%). Half claim to send parcels less frequently, while the remaining three in ten consumers (30%) do not send parcels at all.



# The Communications Market 2012

## 1 The market in context



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# 1.1 Introduction and structure

## 1.1.1 Introduction

This introductory section of the Communications Market Report 2012 is divided into seven sections:

- **Key market trends** (Section 1.3, page 23)  
The section summarises developments in the UK's communications sectors during 2011 and 2012. It focuses on services availability, take-up and industry revenues, as well as covering consumers' use of different devices and household spending on communications services.
- **The rise in text-based communications** (Section 1.4, page 33)  
With the growth in take up and use of a range of digital communications services, this research looks at UK consumers preferences for and use of different communications methods. The research highlights that text-based communications services are now more widely used than voice-based methods to communicate with family and friends.
- **The generation gap** (Section 1.5, page 49)  
While the use of media and communications services is developing rapidly across the UK, the experience of consumers varies by age. This section examines the differences in device take up and media consumption between younger and older people.
- **The fourth screen** (Section 1.6, page 61)  
With the rapid increase in tablet and e-reader ownership in the past year, the section explores how these devices have affected people's lives. It explores the impact on owners' media use and attitudes.
- **The London 2012 Games: media consumption** (Section 1.7, page 75)  
The London 2012 Olympic and Paralympic Games is set to be a significant event in the UK media and communications landscape. In this section we examine television viewer behaviour to past Olympic Games and present new research on the media intentions of UK consumers for the London 2012 Olympic and Paralympic Games.
- **The nations' communications markets** (Section 1.8, page 91)  
This section outlines a range of key findings for communications markets in the UK's nations. It draws on the detailed reports that Ofcom publishes on communications services in each of the UK's nations, which can be found at [www.ofcom.org.uk/cmr12](http://www.ofcom.org.uk/cmr12)
- **Hyperlocal websites** (Section 1.9, page 103)  
There are now more than 400 local community, or 'hyperlocal' websites in the UK collectively produce around 2500 news stories a week. This section presents new research on the hyperlocal website landscape.



## 1.2 Fast Facts

<b>TV</b>	
Proportion of UK homes with digital TV	96%
Minutes spent watching TV per day (person aged 4+)	242 (4 hours)
Proportion of homes with a DVR	47%
<b>Radio</b>	
Proportion of households with access to a DAB digital radio	43%
Proportion of listener hours through a digital platform (DAB, online DTV)	29%
Number of local radio stations broadcasting on analogue (excluding community stations)	342
Number of community radio stations currently on air	198
Number of national radio stations (analogue and DAB)	27
<b>Internet</b>	
Number of fixed residential broadband connections	18.749m
Proportion of adults with broadband (fixed and mobile)	76%
Proportion of adults with mobile broadband	13%
Market share of fixed broadband providers (connections)	BT 29.3%, Virgin Media 20.2% Talk Talk Group 18.5%, Sky 17.9%, Other 14.2%
Average actual broadband speed	7.6Mbit/s
Proportion of homes with a PC or Laptop	79%
Proportion of people who use their mobile to access the internet	39%
Number of mobile broadband subscriptions (dongles/PC datacard)	5.056m
<b>Fixed and mobile telephony</b>	
Number of residential fixed landlines	23.872m
Number of fixed landlines in the UK, including ISDN channels	33.230m
Market share of fixed line providers (voice call volumes)	BT 36%, Virgin Media 12%, Others 52%
Proportion of adults who personally own/use a mobile phone	92%
Proportion of adults who live in a mobile-only home	15%
Proportion of prepay mobile subscriptions	51%
Number of text messages sent per mobile subscription per month	200
<b>Post</b>	
Mail market revenue	£6.7bn
Addressed mail volume	16.6bn items
Approximate number of letters and cards received by residential consumers each week	8.5



# 1.3 Key market trends

## 1.3.1 UK communications industry revenue decreases by 0.3%

**Overall, communications revenue decreases by 0.3% year on year to £53.2bn**

Total UK telecoms revenues declined for the third successive year in 2011, falling by £0.8bn (1.9%) to £39.7bn. Retail revenues increased by £0.1bn to £31.0bn during the year as a £0.2bn increase in fixed internet revenues (as a result of increasing broadband take-up and slowing price decreases), a similar rise in corporate data service revenues and a £0.1bn increase in retail revenues from mobile voice and data services were offset by a £0.5bn fall in fixed call and access revenues. Operator-reported wholesale revenues fell by £0.9bn (8.9%) in 2011.

The UK television industry generated revenue of £12.3bn in 2011, an increase of 4.9% on 2010, driven by continued growth in subscription revenues, coupled with an increase in advertising revenues. Total UK radio industry revenue stood at £1.2bn in 2011, up by 3.5% on the year.

In 2011 Ofcom took on responsibility and powers for the regulation of the postal sector. The fall in postal sector revenues has slowed, following years of decline. In 2011, revenue increased in nominal terms for the first time in four years, to reach £6.7bn<sup>14</sup>, driven by price increases for Royal Mail bulk mail products. Mail volumes and revenues have been declining since 2007, although annual price increases for Royal Mail products have meant that revenue has fallen at a slower rate than volumes.

**Figure 1.1 Communications industry revenue – telecoms, TV, radio**



Source: Ofcom / Operators. Note: Includes licence fee allocation for radio and TV. Figures expressed in nominal terms.

## 1.3.2 Availability of communications services

The availability of most key communication services remained to a great extent unchanged year on year.

<sup>14</sup> Addressed mail revenues include Royal Mail total mails (excluding Parcelforce and unaddressed), access revenues and end-to-end delivered addressed letter mail. This does not include courier or express volumes and revenues.

ADSL has the highest availability of the technologies used to deliver fixed broadband in the UK, and at the end of 2011 almost all UK homes (over 99.9%) were connected to an ADSL-enabled BT exchange.<sup>15</sup>

Figure 1.2 shows that availability of broadband via local loop unbundling (LLU) rose to 92% of UK homes connected to an LLU-enabled BT exchange<sup>16</sup>, a three percentage point increase compared to a year previously.

Ofcom's estimates show that 44% of UK homes were passed by Virgin Media's cable broadband network in May 2012<sup>17</sup>. We estimate that the proportion of UK homes able to receive BT's fibre to the cabinet (FTTC) broadband services have increased to 31% by March 2012, 15 percentage points higher than a year previously. Overall, an estimated<sup>18</sup> 60% of UK homes were able to receive superfast broadband by March 2012, a seven percentage point increase compared to a year previously.

In terms of mobile phone coverage<sup>19</sup>, across the UK we estimate that 99.7% of premises have outdoor 2G mobile coverage from at least one operator. 3G coverage is slightly lower, with 99.1% outdoor coverage from at least one operator. 3G coverage is lowest in Northern Ireland, where 88.3% of premises have outdoor 3G coverage from at least one operator.

As the UK's switchover to digital television nears completion in 2012, availability of digital terrestrial television rose from 85% to 97% of households. While the analogue terrestrial signal was turned off in Scotland and Wales in 2010, the switchover process will complete in England and Northern Ireland in autumn 2012, as the UK's 80-year-old analogue television signal is due to be turned off in October 2012.

The BBC DAB network consists of 230 transmitters across the UK, which provide coverage to 94% of UK households, while the DAB commercial network, Digital One, reached 85% of the UK population.

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<sup>15</sup> Note: some people in these areas may not be able to receive ADSL broadband services, or may only be able to do so at very slow speeds, as a result of the long length or poor quality of the copper telephone line from their premises to the local exchange.

<sup>16</sup> Local loop unbundling (LLU) involves an alternative operator placing its own equipment in the incumbent's local exchange, and consumers living in LLU-enabled exchange areas are likely to have a greater choice of ADSL broadband services and, typically, access to lower-cost (particularly bundled) services.

<sup>17</sup> Note: this is based on data provided by Virgin Media. This figure will be under-stated as it excludes homes where Virgin Media is not also able to provide fixed voice and pay-TV services.

<sup>18</sup> As all of Virgin Media's cable broadband network is able to provide superfast broadband services, we are able to estimate overall UK superfast broadband availability by overlaying Virgin Media cable broadband availability data onto that of BT's FTTC network. Note: the resulting figures will be under-stated as they exclude BT's fibre to the premises network, homes where Virgin Media is not able to provide fixed voice and pay-TV cable services, and other smaller-scale fibre deployments.

<sup>19</sup> Mobile coverage is measured using an improved methodology compared with the 2010 Communications Market Report and therefore the data presented in this year's report is not comparable with the 2010 report.

**Figure 1.2 Digital communications services availability: 2010 and 2011**

Platform	UK 2011	UK 2010	UK change	England	Scotland	Wales	N Ireland
Fixed line	100%	100%	0pp	100%	100%	100%	100%
2G mobile <sup>1</sup>	99.7%	n/a	n/a	99.8%	99.2%	99.2%	98.7%
3G mobile <sup>2</sup>	99.1%	n/a	n/a	99.7%	97.0%	97.6%	88.3%
Cable broadband <sup>3</sup>	44%	44%	0pp	47%	35%	23%	29%
LLU <sup>4</sup>	92%	89%	+3pp	93%	84%	88%	79%
FTTC <sup>5</sup>	31%	16%	+15pp	33%	10%	17%	87%
Superfast broadband	60%	53%	+7pp	62%	42%	34%	94%
Digital satellite TV	98%	98%	0	-	-	-	-
Digital terrestrial TV <sup>6</sup>	97%	85%	12pp	98%	99%	98%	66%
DAB BBC Network <sup>7</sup>	94.3%	92%	+2.3pp	95.5%	90.9%	85.9%	85.4%
DAB commercial network (Digital One) <sup>8</sup>	85%	85%	-	90%	75%	60%	-

Sources: Ofcom and operators:

1. Proportion of premises that have outdoor 2G mobile coverage from at least one operator. Data are not comparable with previous report due to changes made by the mobile operators in the methodology used to calculate coverage.

2. Proportion of premises that have outdoor 3G mobile coverage from at least one operator. Data are not comparable with previous report due to changes made by the mobile operators in the methodology used to calculate coverage.

3. Proportion of homes passed by Virgin Media's cable broadband network, May 2012; excludes households that are not also able to receive Virgin Media's cable fixed telecoms and/or pay-TV services.

4. Proportion of homes connected to an LLU-enabled BT local exchange, December 2011.

5. Ofcom's estimate of proportion of homes able to receive FTT services, based on the proportion of homes in FTTC-enabled BT local exchange areas, March 2012. 6. Calculations based on the estimated proportion of homes that can now receive at least 17 channels, versus the coverage of the DTT signal prior to digital switch-over. 7. BBC National DAB network coverage as of April 2012 (indoor proportional method)

<http://stakeholders.ofcom.org.uk/broadcasting/radio/coverage/dab-coverage/>; 2010 figure from June 2011 <http://stakeholders.ofcom.org.uk/consultations/dab-coverage-planning/> 8. Digital One coverage (indoor proportional method – households), April 2012

<http://stakeholders.ofcom.org.uk/broadcasting/radio/coverage/dab-coverage/>

### 1.3.3 Take-up of services and devices

#### Internet access edges up to 80% of households

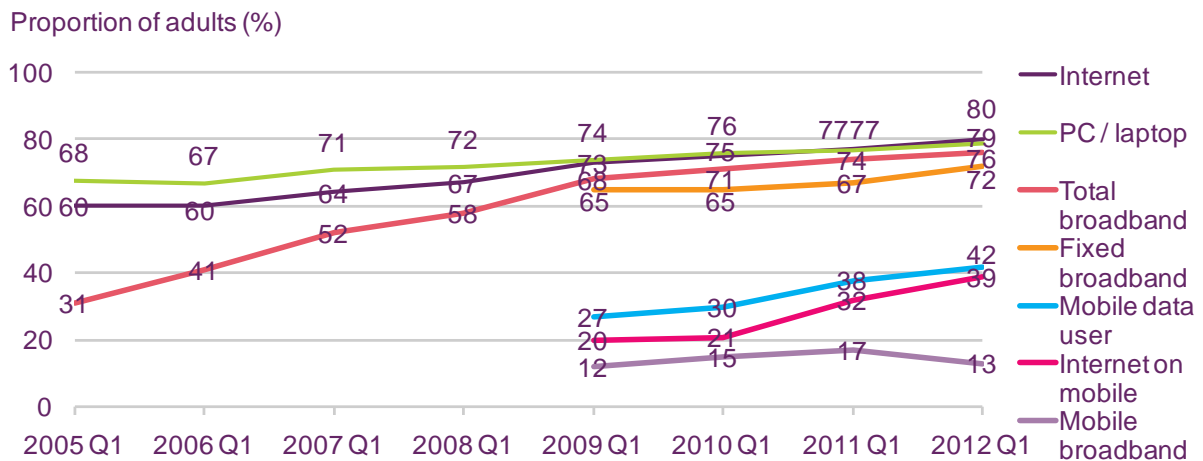
According to Ofcom's research, total internet take-up has continued to edge up each year, to 80% of UK households in Q1 2012. This figure comprises access via fixed and/or mobile broadband, or a mobile phone. Further analysis shows that:

- Total broadband take-up continued to increase steadily and in Q1 2012 stood at 76% of UK households, up two percentage points compared to the same period last year. This figure includes households with fixed and/or mobile broadband connections.
- Fixed broadband access rose to 72% of households, whereas mobile broadband decreased to 13%. (Mobile broadband is defined as access via a mobile network – connecting via a USB stick or dongle, or built-in connectivity in a laptop, netbook or tablet.)



- The majority of mobile broadband connections are purchased in addition to fixed broadband access, with only 5% of households relying solely on mobile broadband.
- Internet on a mobile phone continued to grow substantially and stood at 39% of UK adults in Q1 2012, driven by growth in the smartphone market. Almost all UK adults who have mobile phone internet access also have access via fixed broadband. Only 3% of UK adults rely solely on their phone for home internet access.

**Figure 1.3 Household internet take-up**



QE1: Does your household have a PC or laptop computer? / QE2: Do you or does anyone in your household have access to the internet/world wide web at home (via any device, e.g. PC, mobile phone etc)? / QE6: Which of these methods does your household use to connect to the Internet at home? Source: Ofcom technology tracker, Q1 2012. Base: All adults aged 16+ (n=3772). Note 1: "Internet on mobile" is the % of adults who use a mobile phone for any of the following activities: instant messaging, downloading apps or programmes, email, internet access, downloading video, video streaming, visiting social networking sites. Note 2: From Q1 2009 the 'internet' figure includes those who access the internet on mobile phones.

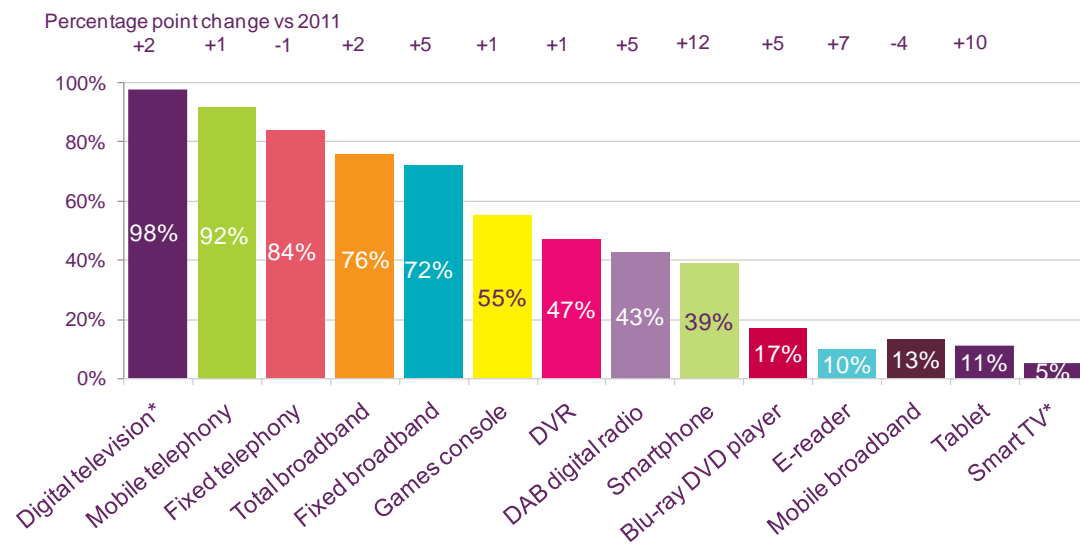
### Take-up of newer connected devices shows rapid growth

Take-up of a range of connected devices has increased. Our research shows that UK households now have access to an average of three different types of internet enabled device.

Smartphone ownership rose rapidly; to 39% of UK adults in Q1 2012 (up 12 percentage points on Q1 2011). Tablet ownership went up from 2% to 11% of UK households in the same period, and smart TV ownership stood at 5% of TV homes. E-readers have also increased in popularity, and 10% of UK adults now own one.

DVR penetration's rate of growth has slowed; reaching 47% of UK homes in Q1 2012, while take-up of games consoles has levelled out at around 55% of homes.

**Figure 1.4 Take-up of digital communications services and devices**



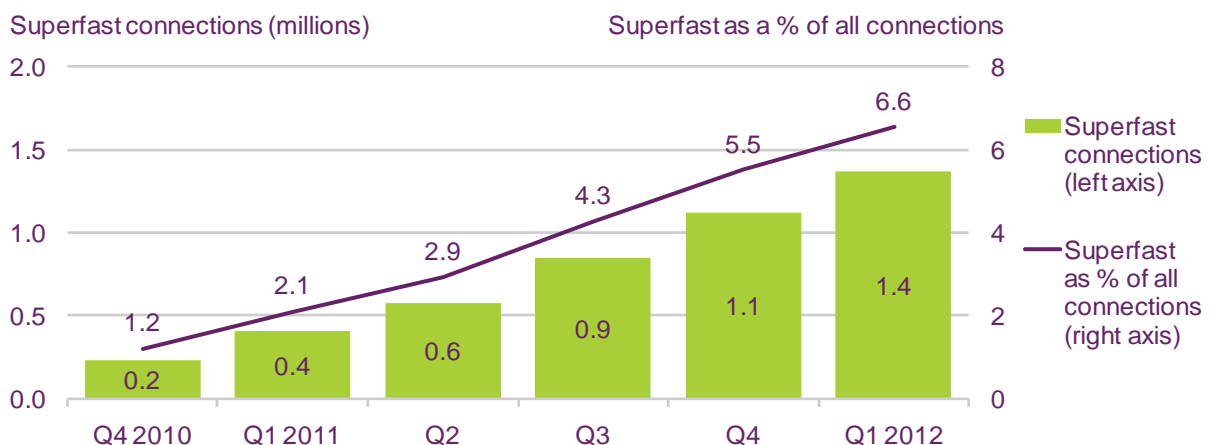
Source: Ofcom research, Q1 2012. Base: All adults aged 16+ (n=3772). Base for DTV and smart TV: households with a TV. Mobile telephony, smartphone and e-reader figures refer to personal take-up, all other figures refer to household take-up. DAB take-up from RAJAR Q1 2012.

**Superfast broadband connections rise by 162% to 1.4 million at the end of March 2012**

Figure 1.5 shows that at the end of March 2012 there were around 1.4 million residential and small to medium sized enterprises (SME) with superfast broadband connections in the UK; 960,000 (162%) more than there had been a year previously.

Over the same period the proportion of all non-corporate broadband connections that were superfast tripled, increasing to 6.6%, and we expect this figure to increase significantly over the next few years as Virgin Media upgrades its entire cable broadband base onto superfast services and more consumers migrate from lower-speed services.

**Figure 1.5 Take-up of superfast broadband services**



Source: Ofcom / operators. Note: Includes estimates where Ofcom does not receive data from operators

### 1.3.4 Time spent on communications services

#### Television represents the greatest amount of media consumed each day

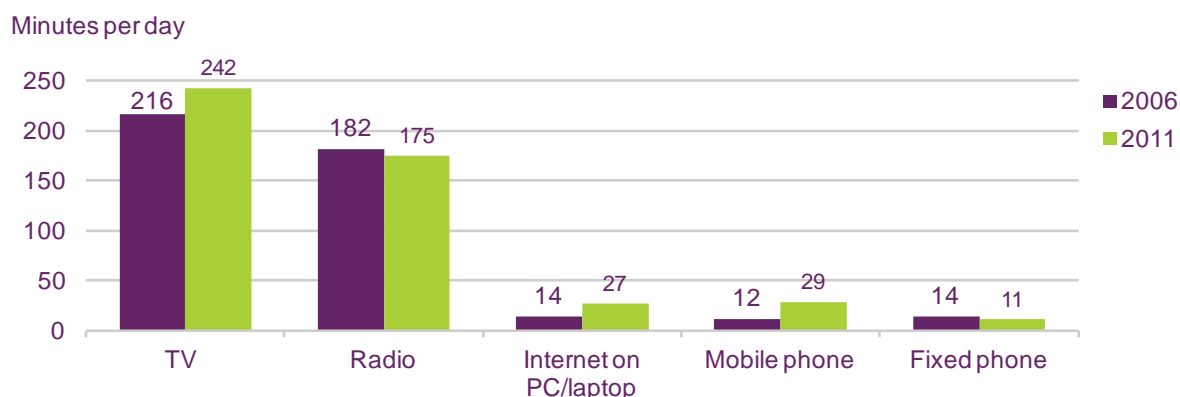
Figure 1.6 shows how much time people spend consuming different types of media in a typical day.

Time spent watching television has remained resilient and at 242 minutes per day in 2011 represents the greatest amount of consumption of the communications services measured<sup>20</sup>. Time spent listening to radio accounted for 175 minutes per day among adults aged 15 and over (Quarter 1 2011) which represents a decrease of six minutes compared to the same period in 2006.

The amount of time spent using a PC/laptop to access the internet at home increased from 14 minutes per day to 27 minutes per day per person in the five years to March 2012, although there was no change in use between March 2011 and March 2012. This is likely to be as a result of consumers increasingly using devices such as smartphones and tablet PCs to access the internet. See section 4.2.5 for further information.

While the amount of time spent using a mobile phone to make or receive voice calls, send messages or surf the internet more than doubled from 12 minutes per day to 29 minutes per day between 2006 and 2011, the average time spent using a fixed phone to make or receive calls fell by 24% to 11 minutes per day over the same period.

**Figure 1.6 Time spent on communications services, minutes per day**



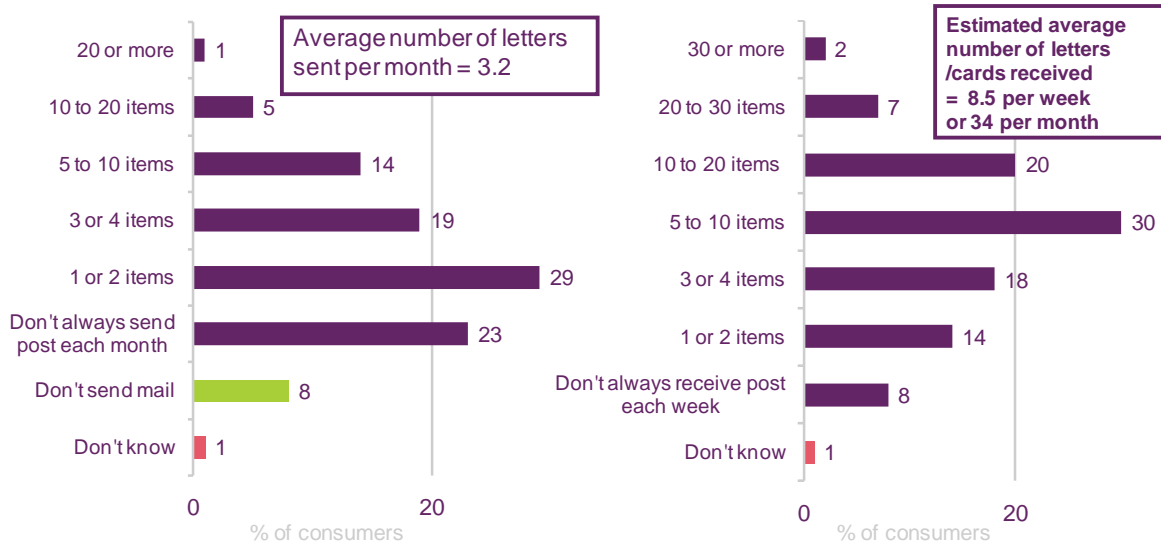
Source: Ofcom / BARB / RAJAR / Ofcom estimates based on Nielsen/UKOM (home use only) / Strategy Analytics

Note: Daily figures for mobile voice & data and fixed voice were calculated from monthly data on the assumption that there are 30.4 days in the average month; for internet consumption where the quoted figures relate to March 2011 and March 2012, and 31 days was used; the internet consumption figures include the use of online applications such as streaming media and only include use at home; mobile telephony figures are Ofcom estimates based on message volume data and Ofcom Digital Day research conducted in 2010.

Adults in the UK claim to receive an average of 8.5 letters or cards in an average week (Figure 1.7) compared to an average of approximately 3.2 letters or cards sent in an average month. This difference is due to the fact that the majority of UK mail is sent by businesses to households.

<sup>20</sup> It should be noted that a new BARB panel for measuring television viewing went live in January 2010, so comparisons of 2011 viewing with years before 2010 should be treated with caution.

**Figure 1.7** Approximate number of letters/cards sent per month, received per week



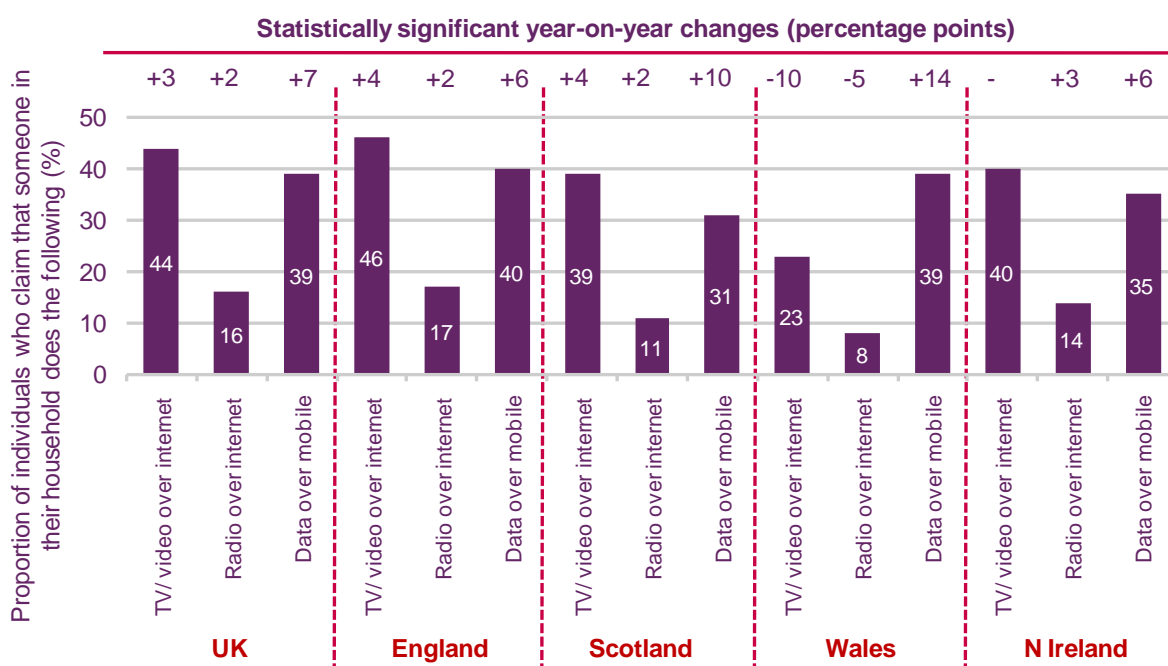
Source: Ofcom Post Omnibus 2011 - fieldwork 1st Dec – 13th Dec 2011

Base: All consumers responsible for sending or receiving post (n= 3621) Q: Approximately how many letters or cards do you receive in an average week? Please don't include parcels, we will ask you about these separately. Q: Approximately how many letters and cards do you personally send in an average month? This should exclude any items you send from home in connection with running a business, if you do this from home. We will ask about parcels separately.

### 1.3.5 Use of converged platforms

Figure 1.8 shows that watching audio-visual content over the internet continues to be a popular pastime. Over four in ten (44%) homes watch services such as BBC iPlayer, 4oD and ITV Player, or stream live TV, or watch video clips online. Online radio listening is more of a minority pastime, with 16% of UK adults listening online.

**Figure 1.8 Use of converged platforms**



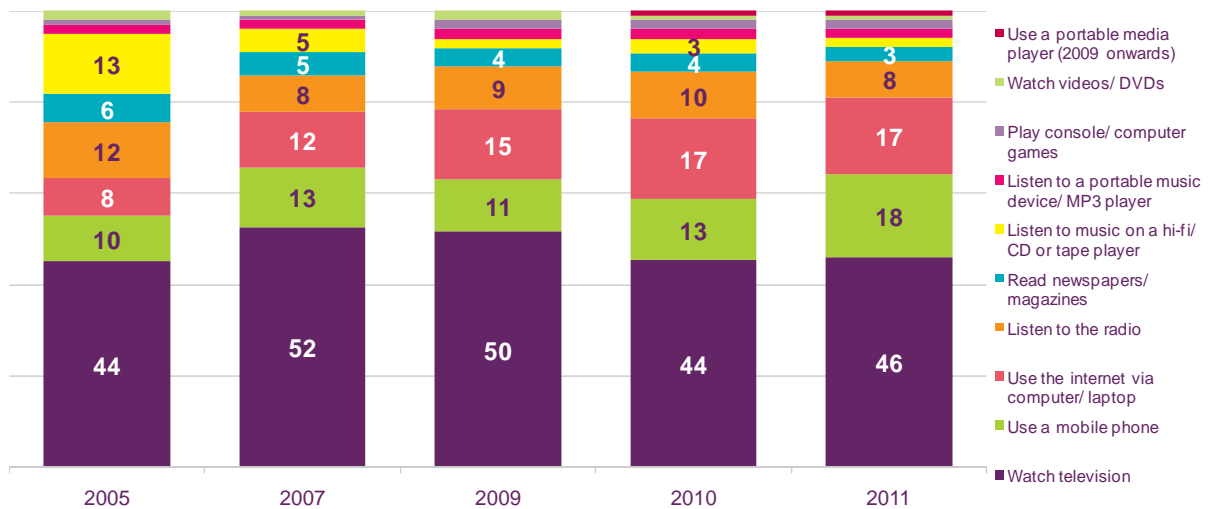
Source: Ofcom research, Quarter 1 2012

Base: All adults aged 16+ (n = 3772 UK, 2251 England, 500 Scotland, 513 Wales, 508 Northern Ireland). QE5A-B. Which, if any, of these do you or members of your household use the internet for whilst at home? QD28A-B. Which, if any, of the following activities, other than making and receiving calls, do you use your mobile for?/ Includes download free applications, download paid-for applications, send/receive emails, accessing the internet, connecting to the internet using WiFi, using VoIP service, download a new video clip, video streaming, TV streaming, accessing/receiving, sports/team news/scores, accessing/receiving news, use IM/instant messaging

### 1.3.6 Which medium UK adults would miss the most

Television continues to be the most popular medium, with 46% of UK adults choosing this option in 2011. However, there have been some notable changes over time. Around one fifth (18%) of UK adults now say they would miss their mobile the most – an increase of eight percentage points since 2005. Similarly, those naming the internet has gone up from 8% in 2005 to 17% of UK adults in 2011.

**Figure 1.9 Which media activity UK adults would miss the most**



Source: Ofcom media literacy research. Base: All adults aged 16+ (3244 in 2005, 2905 in 2007, 1824 in 2009, 2117 in 2010, 1823 in 2011). Q. Which one of these would you miss doing the most?

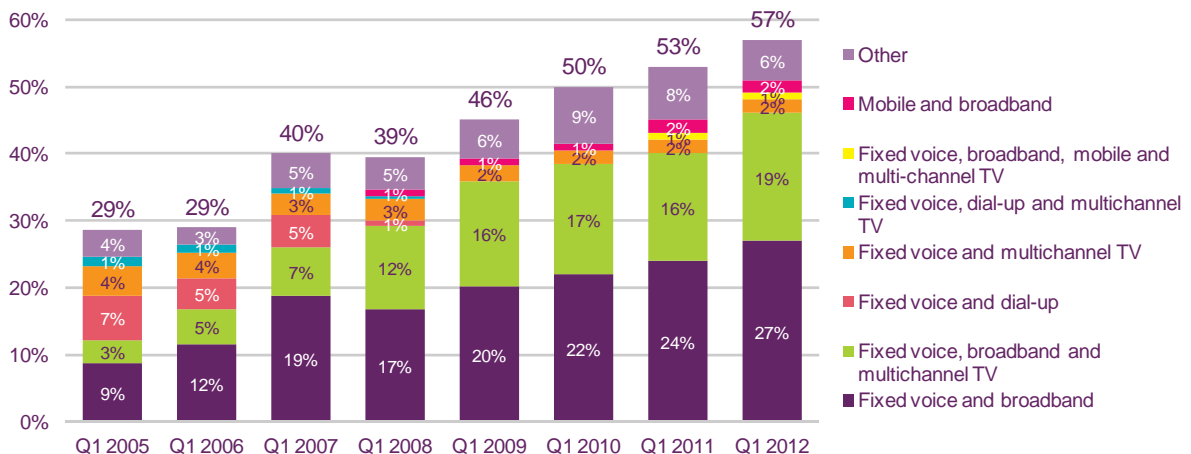
### 1.3.7 Purchasing communications services in bundles grows

#### One in five UK households purchase fixed voice, broadband and multichannel TV in a bundle

Figure 1.10 shows that 57% of UK households purchase communication services in a bundle – i.e. more than one service from the same provider. This has grown steadily since 2008. The most popular type of bundle remains a dual fixed voice and broadband package, purchased by 27% of UK households in Q1 2012.

Taking a triple play bundle of fixed voice, broadband and multichannel TV accounted for 19% of UK homes, up by three percentage points on the same period last year.

**Figure 1.10 Take-up of bundled communications services over time**



Source: Ofcom technology tracker, Q1 2012. Base: All adults aged 16+ (n=3772)

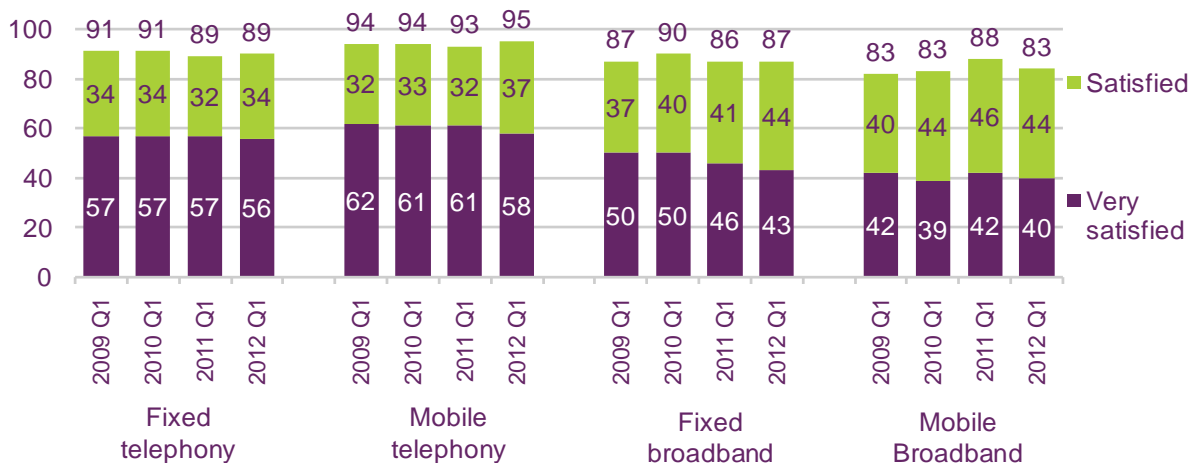
### 1.3.8 Consumer satisfaction with communications services

For most communications services, consumer satisfaction remained the same year on year. Ninety five per cent of mobile phone owners were satisfied with their mobile service – the

highest results across the services measured. Almost nine in ten (89%) were satisfied with their fixed-line telephone service, and a similar proportion (87%) for fixed broadband. Although there was an apparent year-on-year decrease in satisfaction among mobile broadband users, this is within the survey's error margins and should therefore not be treated as significant.

**Figure 1.11 Consumer satisfaction with communications services**

Proportion of users of service (per cent)



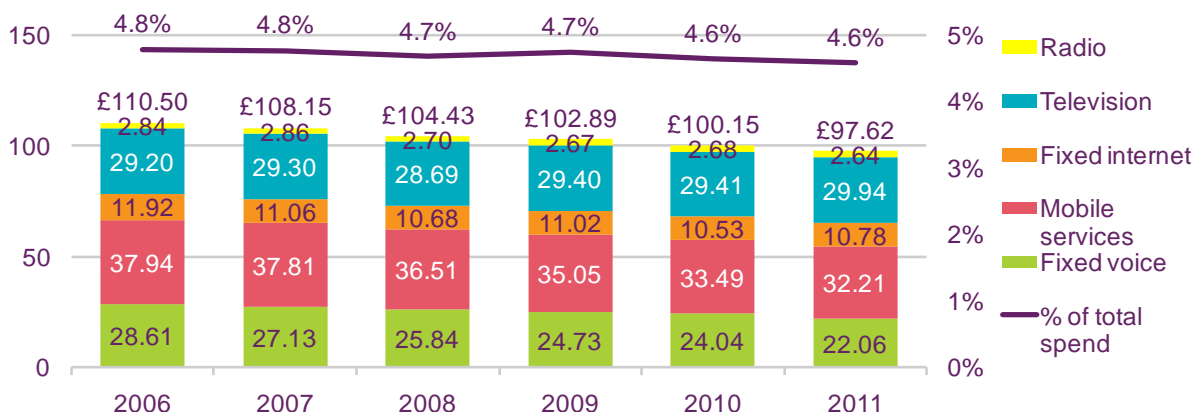
Source: Ofcom research. Note: Shows the proportion of users with each service, includes only those who expressed an opinion.

### 1.3.9 Household spend on communications services

Household spend on communication services fell from £110.50 in 2006 to £97.62 in 2011, representing a monthly saving of £12.88, or £154.56 per year.

Average monthly household spend on telecoms services fell to £65.04 in 2011, a £3.02 a month (4.4%) fall in real terms. Household spend on television remained stable year on year, at £29.94.

**Figure 1.12 Average household spend on communications services**



Source: Ofcom/Operators/ONS. Notes: Radio data before 2004 were compiled using a different methodology and are not directly comparable to subsequent figures. TV includes pay-per-view from 2004 onwards. Figures expressed in 2011 prices.

# 1.4 The rise in text-based communications

## 1.4.1 Introduction

This section of the report summarises the findings of a face-to-face omnibus survey about the use of communications services in the UK. It was commissioned in February/ March 2012 and in total 2,012 UK adults aged 16+ were interviewed.

The research was commissioned to understand the breadth of communications methods UK consumers used, and their preferences for using different ways of communicating in different circumstances. The research found that digital communication methods are now widely used alongside traditional methods.

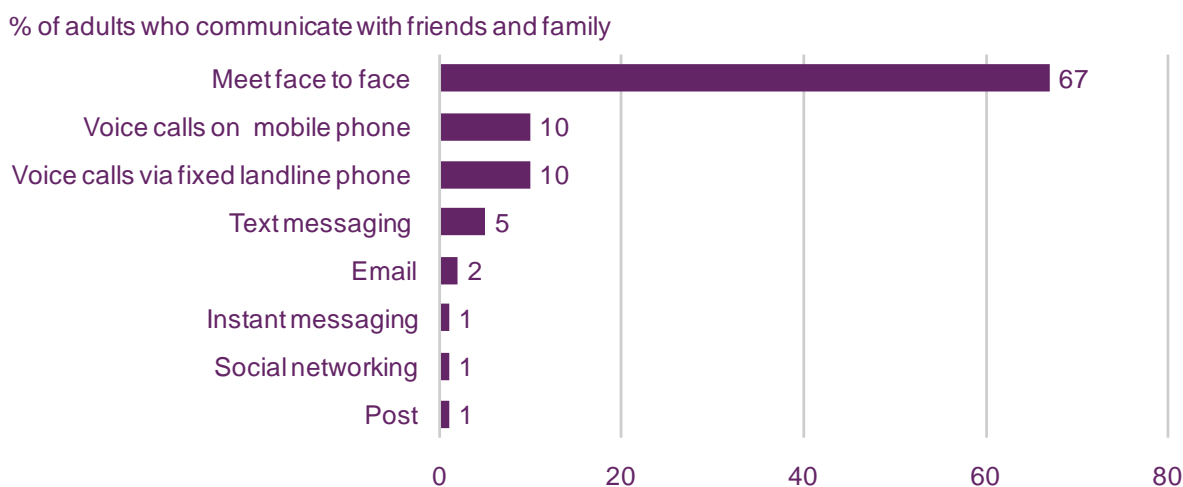
## 1.4.2 Preferred methods of communication with friends and family

### Face-to-face is the preferred way of communicating with friends and family

Meeting face-to-face is by far the preferred means of personal communication with friends and family. When asked to choose, two-thirds (67%) of people prefer to communicate with friends and family in this way.

The second most-preferred method is phone calls. One in ten prefers to communicate with friends and family using mobile calls and the same proportion prefer using fixed-line calls.

**Figure 1.13 Preferred method of communication with friends and family**



Q5a: If you had to pick one method of communicating with friends and family which one would it be?

Source: Ofcom research, 2012

Base: all who ever use at least one form of communication: Friends and family, n= 2007

Note - other mentions by 1% or fewer included: Emails, social networking, VoIP calls

### Face-to-face communication is preferred by old and young alike

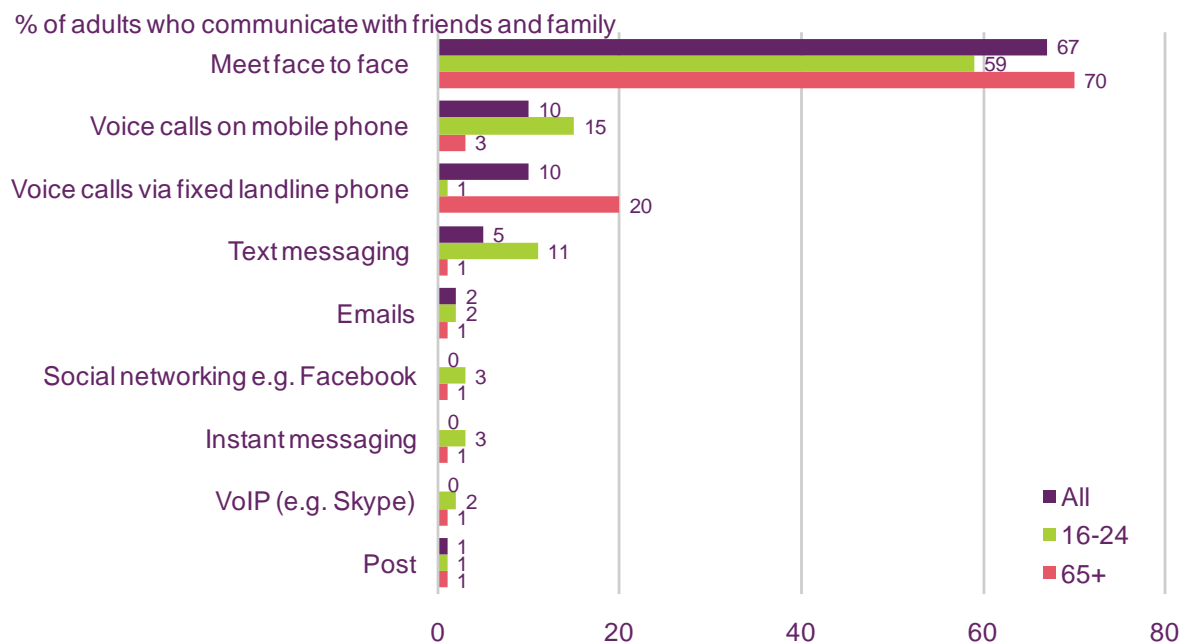
Figure 1.14 shows that seven in ten of those aged 65+ prefer to meet friends and family face to face. While not as popular with younger people, face-to-face is still their favoured method for catching up with friends and family (59% of 16-24 years olds).

Landline calls are more popular among people aged 65+, with one in five preferring this method to talk to friends and family. Landline calls are far less popular among those aged 16-24, with just 1% saying that this is their preferred method.



Younger people are more likely to favour mobile voice calls, with 15% of 16-24s choosing this as their preferred method for catching up with friends and family. This compares to 3% of people aged 65+.

**Figure 1.14 Preferred methods of communication with friends and family, by age**



Q5a: If you had to pick one method of communicating with friends and family which one would it be?  
 Source: Ofcom research, 2012

Base: all who ever use at least one form of communication: Friends and family, n= 2007.

### 1.4.3 Frequency of using communication methods with friends and family

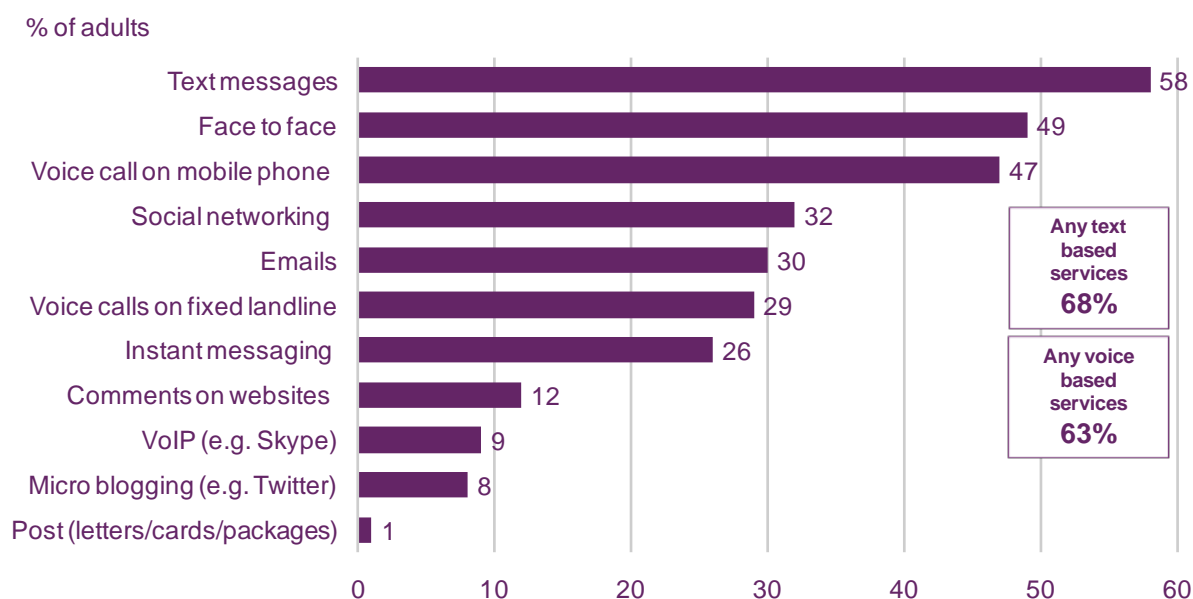
#### Text messages are the most-used method for daily communications with friends and family

Respondents were asked which methods they used at least once a day to communicate with friends and family. The findings show that overall, text messages are the most widely-used method.

Figure 1.15 shows that about six in ten (58%) stated that they use text messages to communicate with friends and family at least once a day. This is higher than the proportion who claimed to communicate face to face (49%). Social networking is used daily to communicate by about one third (32%) of adults.

Looking at the overall ways in which people communicate with friends and family on a daily basis, 68% use *any* text-based methods and 63% use *any* voice-based services.

**Figure 1.15 Methods used on daily basis to communicate with friends and family**



Source: Ofcom research, 2012

Q2a: How often do you use x to communicate with friends and family?

Base: UK adults who use communication methods aged 16+, n = 1980

Any text-based services: text messages, social networking, emails, instant messaging, comments on websites, micro blogging, post

Any voice-based services: voice calls on mobile, voice calls on fixed landline, VoIP

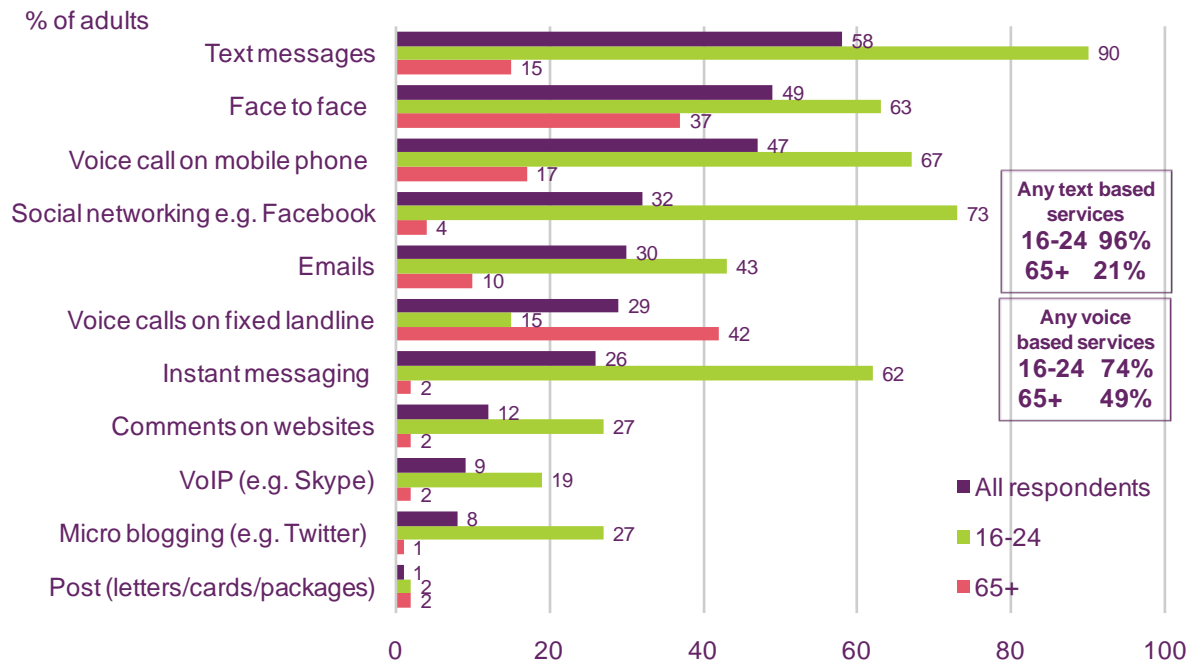
**On a daily basis, 16-24 year olds are more likely to send a text message to friends and family than to phone or talk face to face**

Figure 1.16 shows that daily use of text-based digital communications such as text messages, social networking and instant messaging is largely driven by people aged 16-24. Nine in ten 16-24 year olds say they communicate with friends and family on a daily basis via text messages, compared to 15% of over-65s. Almost three-quarters (73%) of 16-24 year olds use social networking to communicate with friends and family on a daily basis, compared to just 4% of those aged 65+. Instant messaging is used to contact friends and family daily by 62% of 16-24 year olds, compared to 2% of those aged 65+.

Fixed-line telephone calls are used to communicate daily with friends and family by four in ten (42%) adults aged 65+. Among 16-24 year olds this figure is much lower: 15%.

Overall, 96% of 16-24 year olds use *any* text-based services to communicate with friends and family on a daily basis, compared to just 21% of those aged over 65. Any voice-based services are used in this context by almost half (49%) of over-65s and 74% of 16-24 year olds.

**Figure 1.16 Method of communication used at least once a day to communicate with friends and family, by age of respondent**



Source: Ofcom research, 2012

Q2a: How often do you use x to communicate with friends and family?

Base: UK adults who use communication methods aged 16+, n = 1980

Any text-based services: text messages, social networking, emails, instant messaging, comments on websites, micro blogging, post

Any voice-based services: voice calls on mobile, voice calls on fixed landline, VoIP

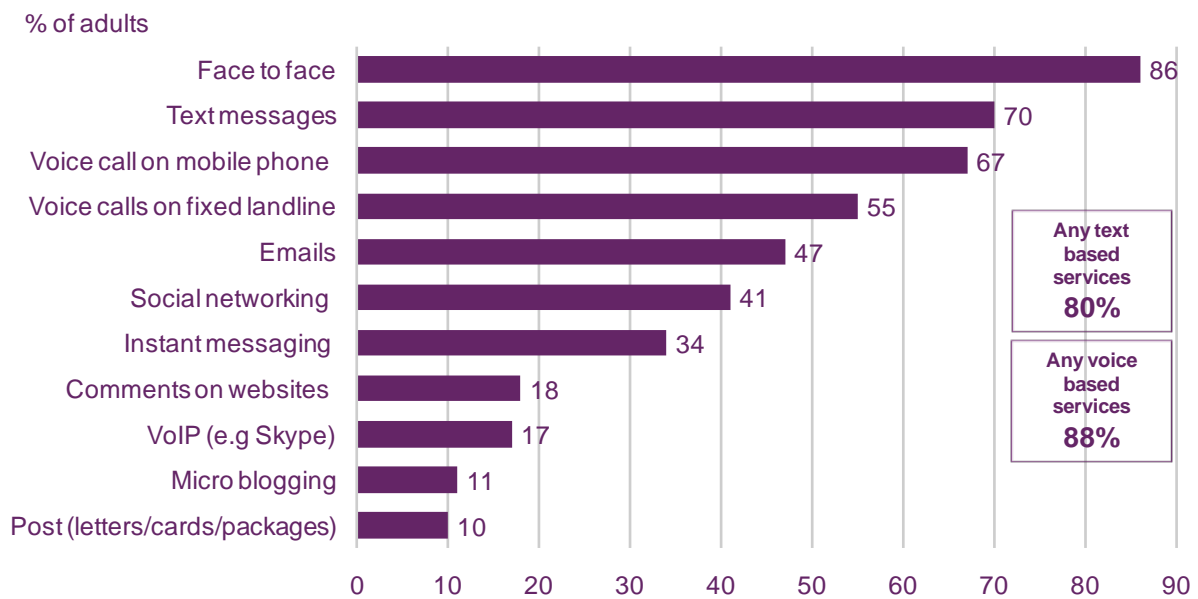
### On a weekly basis, face-to-face is the most-used method for communicating with friends and family

Figure 1.17 shows that when the timeframe is extended to 'at least once a week', face-to-face meetings (86%) emerge as the most common way of communicating with friends and family. Text messages (70%), telephone calls (67% mobile, 55% fixed) and emails (47%) were the next most popular methods. This is consistent with respondents' stated communication preferences (see Figure 1.13).

One in ten adults use post on a weekly basis to keep in touch with friends and family.

Overall, any text-based services are used by eight in ten people (80%) at least once a week as a way to communicate with friends and family. Voice-based services are used by a greater proportion of UK adults on a weekly basis, with 88% communicating with friends and family using these methods.

**Figure 1.17 Methods used at least once a week to communicate with friends and family**



Source: Ofcom research, 2012

Q2a: How often do you use x to communicate with friends and family?

Base: UK adults who use communication methods aged 16+, n = 1980

Any text-based services: text messages, social networking, emails, instant messaging, comments on websites, micro blogging, post

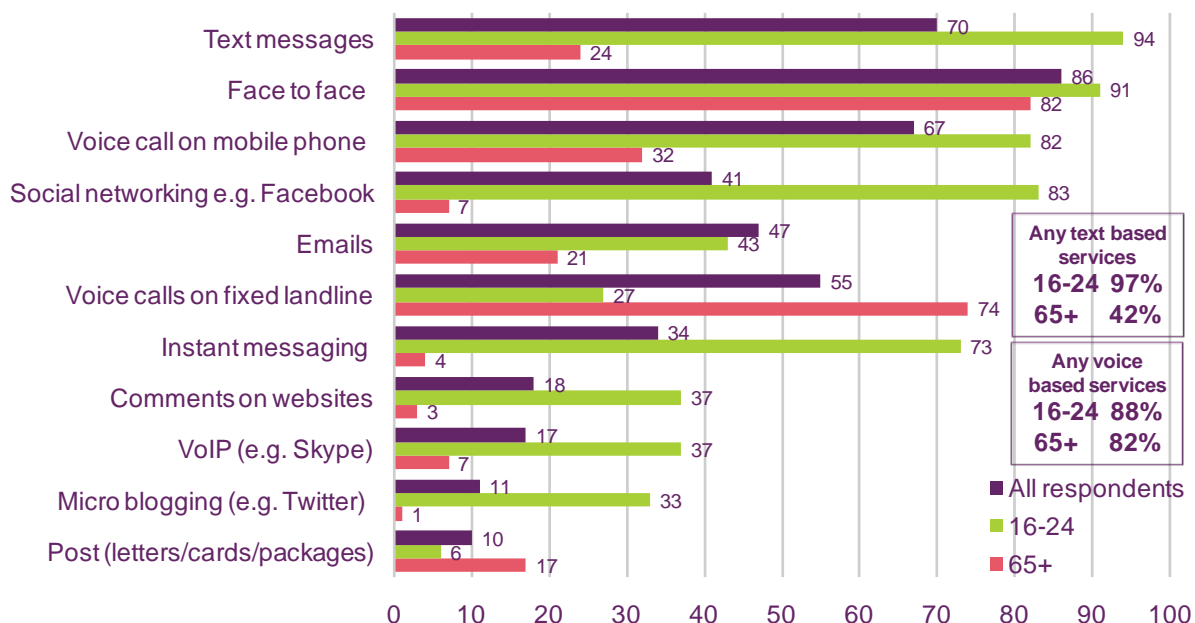
Any voice-based services: voice calls on mobile, voice calls on fixed landline, VoIP

**Less than three in ten 16-24 year olds make landline telephone calls on a weekly basis**

Figure 1.18 shows that weekly use of communications services differs by age, with those aged 16-24 much more likely to use text messages, social networking, instant messaging or call on their mobile. On a weekly basis those aged 65+ are more likely to use landline telephony (74%) than those aged 16-24 (27%).

In terms of overall use, 97% of 16-24 year olds choose text-based services to contact friends and family each week, compared to 88% using voice-based communication. Older respondents are almost twice as likely to choose voice-based than text-based communication with friends and family, at 82% and 42% respectively.

**Figure 1.18 Methods of communication used at least once a week to communicate with friends and family, by age of respondent**



Source: Ofcom research, 2012

Q2a: How often do you use x to communicate with friends and family?

Base: UK adults who use communication methods aged 16+, n = 1980

Any text-based services: text messages, social networking, emails, instant messaging, comments on websites, micro blogging, post

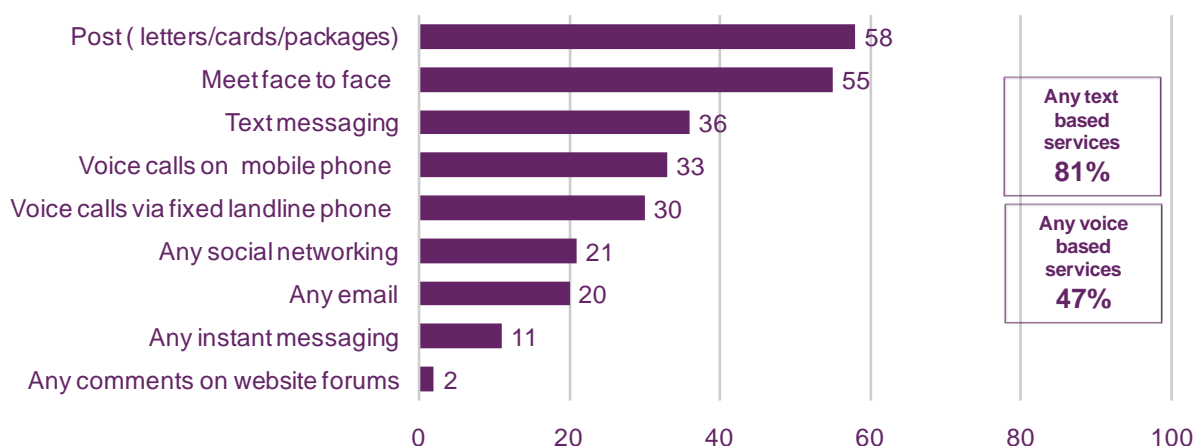
Any voice-based services: voice calls on mobile, voice calls on fixed landline, VoIP

#### 1.4.4 Communicating in different circumstances

##### Non-digital methods of communication are the most used for birthdays and other greetings

Figure 1.19 shows that respondents most frequently use the post (58%) and meeting in person (55%), on occasions such as birthdays. Telephony is the next most commonly-used method, with about one third of respondents saying that they have sent greetings by text message (36%), by a mobile phone call (33%) or a fixed-line phone call (30%). Online methods such as social networking websites (21%) or email (20%) are used less frequently for greetings.

**Figure 1.19 Communication methods ever used to send greetings (e.g. birthdays)**



Source: Ofcom research, 2012

Q3a: ...which of these methods do you ever use to send greetings for occasions such as birthdays, get well, congratulations etc

Base: UK adults aged 16+ who communicate with friends and family, n = 2012

Any text-based services: text messages, social networking, emails, instant messaging, comments on websites, micro blogging, post

Any voice-based services: voice calls on mobile, voice calls on fixed landline, VoIP

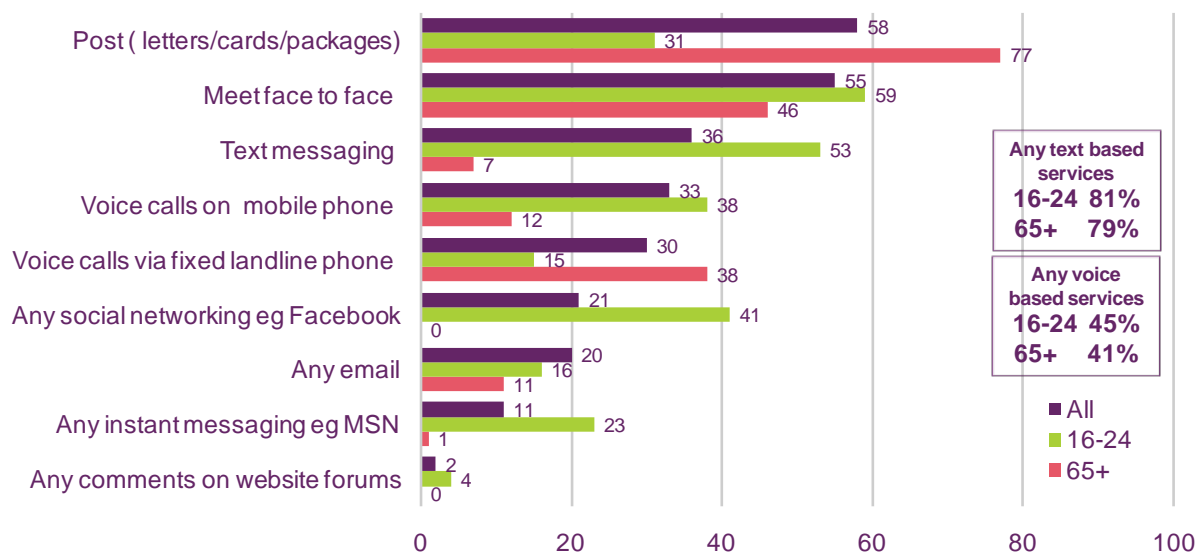
**Overall, post is the preferred way of sending a greeting – although for 16-24 year olds it is less popular than text messages and social networking**

Figure 1.20 shows that over three-quarters (77%) of over-65s use the postal service to send letters, cards or packets when they wish to send a greeting. Those in the 16-24 age group are much less likely to use the post (31%).

A substantial proportion of respondents aged 16-24 are using newer text-based communications methods to send greetings, such as text messages (53%), social networking (41%), and instant messaging (23%).

Meeting face-to-face on such occasions is popular among young and old, with 16-24s (59%) more likely than over-65s (46%) to do this.

**Figure 1.20 Communication methods ever used to send greetings (e.g. birthdays), by age of respondent**



Source: Ofcom research, 2012

Q3a: ...which of these methods do you ever use to send greetings for occasions such as birthdays, get well, congratulations etc.

Base: UK adults aged 16+ who communicate with friends and family, n = 2012

Any text-based services: text messages, social networking, emails, instant messaging, comments on websites, micro blogging, post

Any voice-based services: voice calls on mobile, voice calls on fixed landline, VoIP

### 1.4.5 Changing patterns of communicating with friends and family

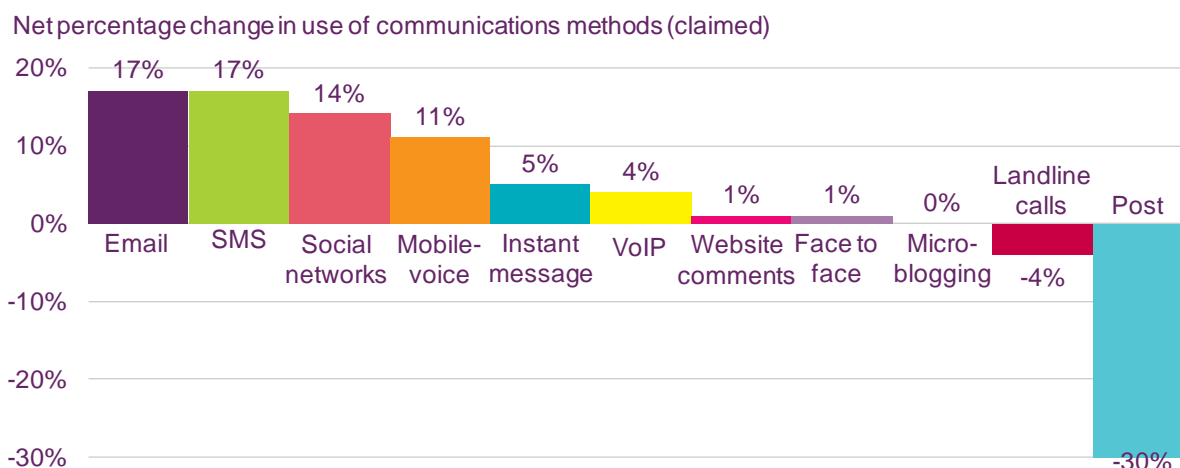
#### Use of post has diminished in the past two years while digital methods such as email and text messaging have gained in popularity

We asked respondents whether they thought they used different communications services more or less than they did two years ago.

Figure 1.21 shows that, overall, respondents claimed to have increased their use of many communications services – largely those that rely on the internet or mobile telephony. The largest claimed increases in use were for email and SMS, both with 17% of respondents claiming to use them more (net).

Claimed use of post has declined dramatically, by 30% (net) versus two years ago, and the use of landline calls appears to have declined slightly.

**Figure 1.21 Net claimed changes in communications methods used: past two years**



Source: Ofcom research, 2012

Q6a/6b: Which of these methods of communication do you use to communicate more/ less than you did 2 years ago? (Multiple choice)

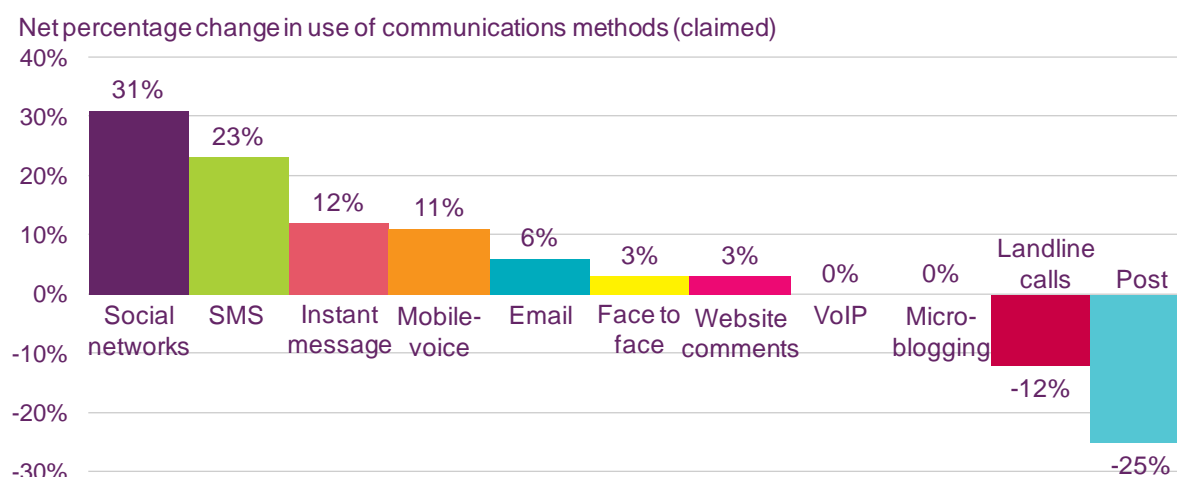
Note chart shows net percentage (% who claimed to use more - % who claimed to use less)

Base: UK adults aged 16+, n = 2009

**16-24 year-olds use text messages and social networking to communicate with friends and family more than other age groups, and have increased their use of these methods**

The biggest increase in communications methods used in the past two years among 16-24 year olds is in the use of social networking (31% net claimed increase), followed by mobile text messages (+ 23%) and instant messaging (+12%). In common with the wider population, the largest claimed net decrease was in the use of post (- 25%).

**Figure 1.22 Net claimed changes in communications methods used in past two years, 16-24 year olds**



Source: Ofcom research, 2012

Q6a/6b: Which of these methods of communication do you use to communicate more/ less than you did 2 years ago? (Multiple choice)

Note chart shows net percentage (% who claimed to use more - % who claimed to use less)

Base: All UK adults aged 16-24, n = 319

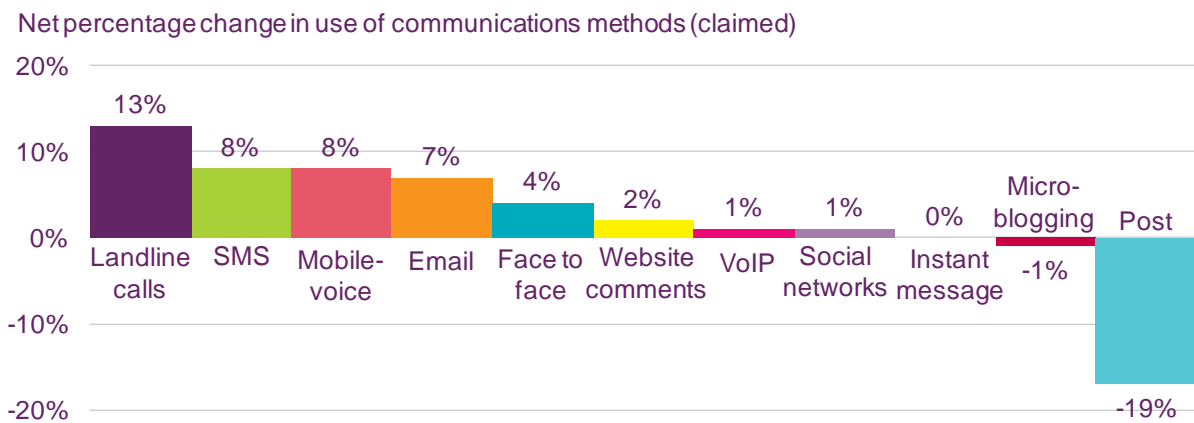


**While 12% of 16-24 year use landlines less, 13% of those aged 65+ say they have increased their use of landline calls**

The picture is different for older people (Figure 1.23). Although those aged 65+ claim to be increasing their use of digital methods such as email and text messaging, it is at a slower rate than younger people.

The biggest claimed increase in use among the over-65s is in landline telephone calls (+13%). This is the reverse of the trend noted among 16-24 year olds.

**Figure 1.23 Net claimed changes in communications methods used in past two years, 65+ year olds**



Source: Ofcom research, 2012

Q6a/6b: Which of these methods of communication do you use to communicate more/ less than you did 2 years ago? (Multiple choice). Note chart shows net percentage (% who claimed to use more - % who claimed to use less)

Base: UK adults aged 65+, n = 420

**1.4.6 Communication in the future**

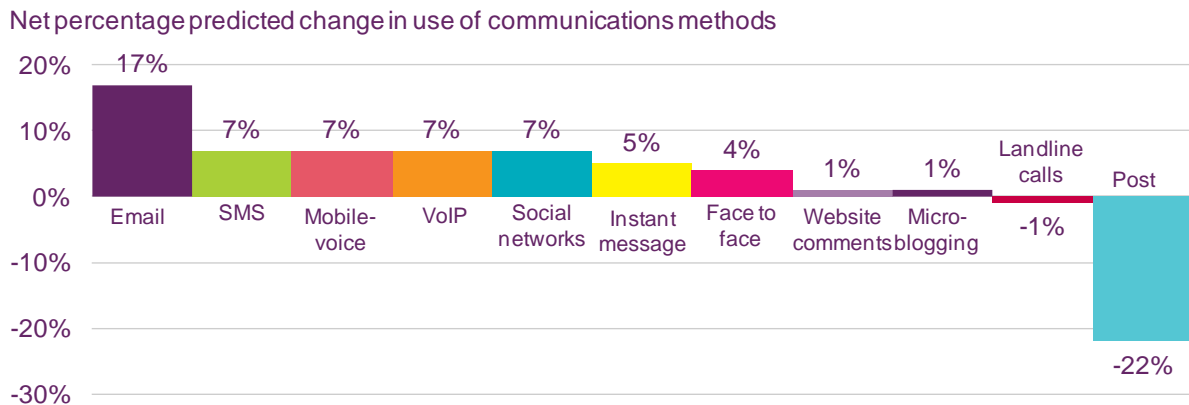
**Respondents predict that they will continue to increase their use of digital text-based communications, and continue to decrease their use of post**

We asked respondents which communication methods they expected to use more, and less, in the future. Figure 1.24 shows that, broadly, across all age groups respondents expect their behavioural changes over the past couple of years to continue. Respondents expect to be using more email (+17% net), text messages (+7%), voice over IP (+7%), mobile calls (+7%), and social networking (+7%).

Many respondents also predict that they will continue to reduce their use of post for letters, card and parcels (-22% net).

The data in Figure 1.24 should of course be treated with caution since they are based on respondents' predicted behaviour. It should also be noted that the survey took place shortly after an announcement that stamp prices were to increase, so respondents' stated future intentions about use of the postal service may have been influenced by this.

**Figure 1.24 Net predicted changes in communications methods that will be used in the next two years**



Source: Ofcom research, 2012

Q7a/7b: In the next two years which of them do you think you will use more than you do now?

Note chart shows net percentage (% who predict to use more - % who predict to use less)

Base: UK adults aged 16+, n = 2009

### 1.4.7 Communicating with businesses

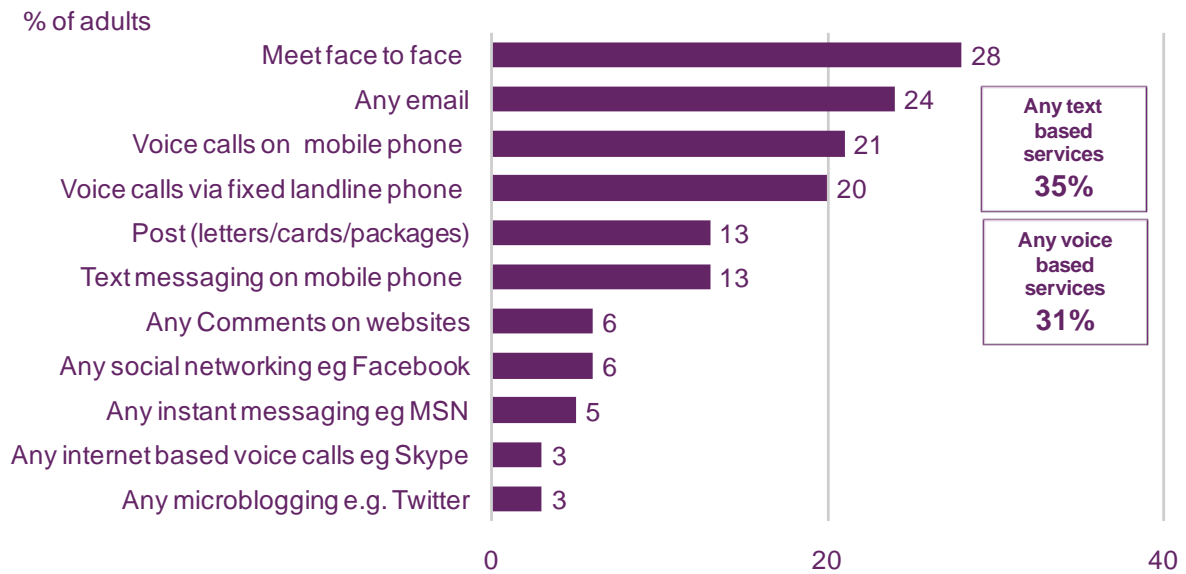
#### Post is more widely used for business communications, but face-to-face is still more popular

Figure 1.25 shows that people use a wide range of methods to communicate with businesses and services. The most widely-used (weekly) methods of interaction are face-to-face (28%), email (24%), phone calls (21% mobile, 20% fixed), post (13%), and text messages (13%). Other methods are used by a smaller proportion of people for business communications.

Compared to communications with friends and family, one of the most notable differences is that post is used more for engaging with businesses, and text messages are used less. Face-to-face, email and phone calls are commonly used methods of communications with business and personal contacts.

On a weekly basis, as a way of communicating with businesses and services, any text-based services are used by more people than any voice-based methods, at 35% and 31% respectively.

**Figure 1.25 Methods used at least once a week to communicate with businesses and services**



Source: Ofcom research, 2012

Q2b: How often do you use X to communicate with businesses and services?

Base: UK adults aged 16+, n = 2012

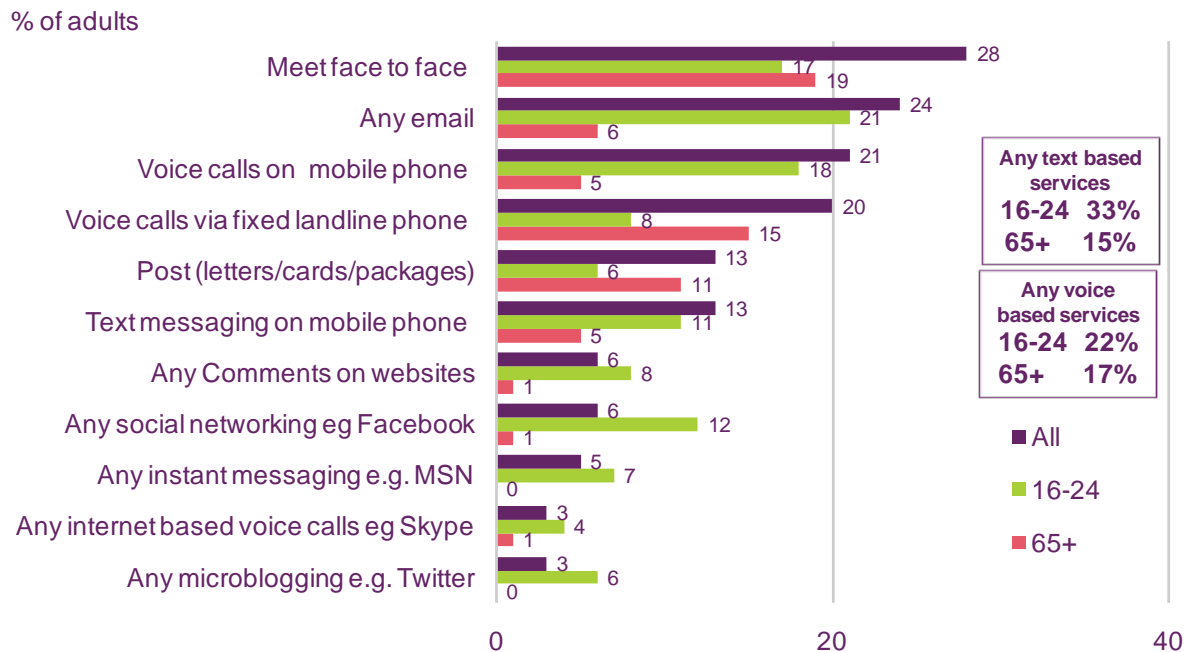
Any text-based services: text messages, social networking, emails, instant messaging, comments on websites, micro blogging, post

Any voice-based services: voice calls on mobile, voice calls on fixed landline, VoIP

Figure 1.26 shows that people aged 16-24 are more likely to use mobile phone calls (18%) and email (21%) for weekly business communications, whereas over-65s are more likely to use traditional methods such as post (11%) and fixed-line phone calls (15%).

Overall, 16-24s are more likely to use text-based methods to communicate with businesses and services each week, with 33% using these services, compared to 22% who use any voice-based services. The difference is less marked among older respondents, with 15% of over-65s using text-based services, compared to 17% who use voice-based methods in this context.

**Figure 1.26 Methods used at least once a week to communicate with businesses and services, by age**



Source: Ofcom research, 2012

Q2b: How often do you use X to communicate with businesses and services?

Base: UK adults aged 16+, n = 2012

Text-based services: text messages, social networking, emails, instant messaging, comments on websites, micro blogging, post

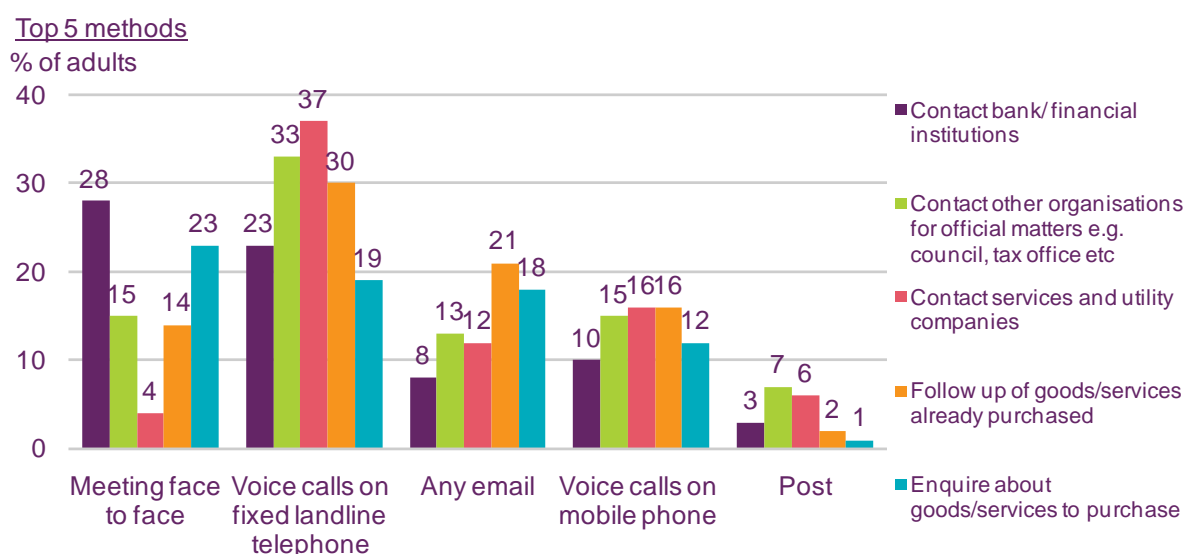
Voice-based services: voice calls on mobile, voice calls on fixed landline, VoIP

**People prefer to communicate with banks face-to-face, while for services and utilities a landline phone is preferred**

Figure 1.27 shows that people prefer to communicate with businesses in different ways, depending on the circumstances. Overall, verbal communication methods tend to be preferred, perhaps because of the ability to interact in 'real time'.

When contacting a bank or financial institution, face-to-face meetings are the most preferred method (28%). Fixed-line telephone calls (33%) are the most preferred method for official matters, such as contacting the tax office or local council. For queries with a supplier about goods and services that have already been purchased, a fixed-line phone call is preferred (30%) and for a prospective purchase, face-to-face enquiries are preferred by 23%.

**Figure 1.27 Preferred method of communicating with businesses and services**



Source: Ofcom research, 2012

Q4b: Generally, which method do you prefer to use to...

Base: UK adults aged 16+, who communicate with businesses, n = 701

Note: Other mentions by 3% or less included text messages, social networking, VoIP calls.

### 1.4.8 Attitudes of people to modern / digital communication methods

Interviewers asked about attitudes to various methods of communication. A series of statements were read out and respondents were asked to indicate the extent to which the statement applied to them, using a 1 to 5 scale (Figure 1.28).

#### Overwhelmingly, people would prefer to communicate in person with friends and family

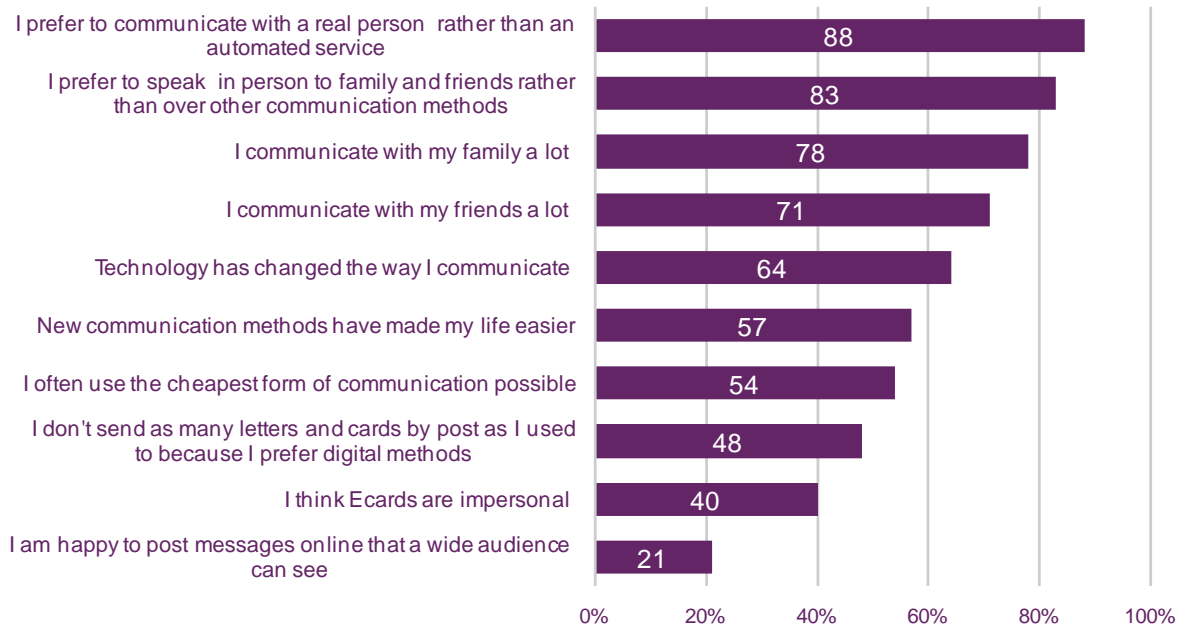
Almost nine in ten (88%) respondents indicated that they preferred to speak to a real person rather than an automated service, and over eight in ten (83%) said that they prefer to speak to family and friends face-to-face.

Around two-thirds (64%) stated that technology has changed the way they communicate, while almost six in ten (57%) state that new communication methods have made their lives easier.

Almost half (48%) also say that they are sending fewer letters and cards by post because they prefer digital methods of communication.

Over three-quarters of people (78%) agree that they communicate with their family a lot and slightly fewer (71%) agree that they communicate with their friends a lot.

**Figure 1.28 Agreement with attitudes towards communication methods**



Source: Ofcom research, 2012

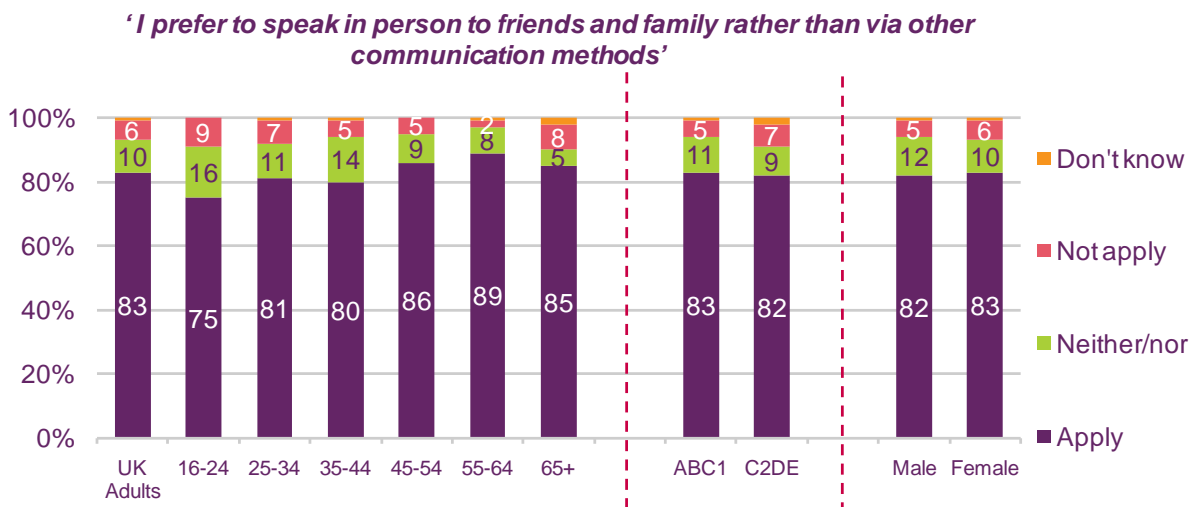
Q8: I am going to read out some statements and I would like you to tell me how much each one applies to you using a scale of 1-5, where 5 = totally applies. Chart shows the proportion that indicated that the statement applies to them, by rating 4 or 5.

Base: UK adults aged 16+ n = 2012

**People of all ages and social groups prefer face-to-face when communicating with family and friends**

Figure 1.29 shows respondents' preference for face-to-face communication, by demographic group. Younger respondents are slightly less likely to prefer face-to-face, although even in the 16-24 year old group, 75% still favour in-person communications.

**Figure 1.29 Preferences for face-to-face communication with friends and family**



Source: Ofcom research, 2012

Q8: I am going to read out some statements and I would like you to tell me how much each one applies to you using a scale of 1-5, where 5 = totally applies. Chart shows the proportion that indicated that the statement applies to them, by rating 4 or 5.

Base: UK adults aged 16+ n = 2012

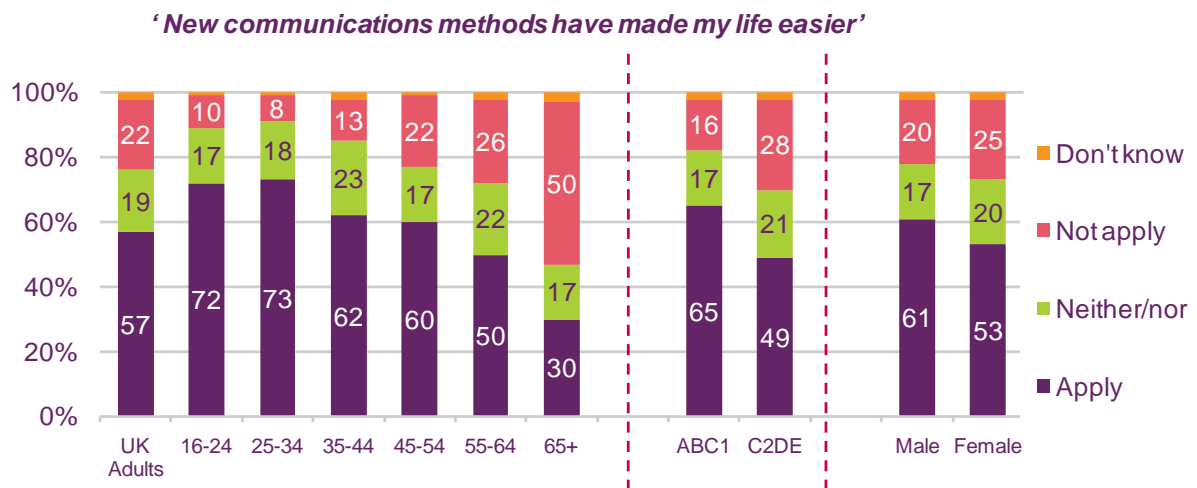
**Many younger people agree that new communications services have made life easier—72% of 16-24s and 73% of 25-34 year olds agree**

Figure 1.30 shows that the proportion of respondents who agreed that “new communications methods have made life easier” differs by age, socio-economic group and gender. Those aged under 35 were the most likely to agree with this statement (72% of 16-24s and 73% of 25-34 year olds). Those in ABC1 households (65%) were more likely to agree than those in C2DE homes (49%).

**Older people are less likely to agree – only 30% of over-65s say that new communications methods have made life easier**

Among over-65s, a minority (30%) agreed that new communications methods have made life easier. Half of this group said that this statement did not apply to them, perhaps indicating that they either did not necessarily use new communication methods or that they thought that new communications methods have made life more difficult.

**Figure 1.30 Views on whether new communications methods have made life easier**



Source: Ofcom research, 2012

Q8: I am going to read out some statements and I would like you to tell me how much each one applies to you using a scale of 1-5, where 5 = totally applies. Chart shows the proportion that indicated that the statement applies to them, by rating 4 or 5.

Base: UK adults aged 16+ n = 2012

# 1.5 The generation gap

## 1.5.1 Introduction

There have been rapid advances in the media communications market over the past decade<sup>21</sup>, but differences still remain between older and younger people in terms of take-up and use of various services.

This section examines take-up and consumption by age, to explore these differences. It reports on a variety of measures, including television and radio consumption, take-up of landlines, mobile phones and the internet. A range of sources have been used including industry standard sources such as BARB for television viewing and RAJAR for radio listening, as well as Ofcom surveys.

### Key points:

- **Television has been a highly resilient medium over the past 10 years. According to BARB, UK adults spent 4.3 hours per day watching television in 2011.** Since 2002 viewing has increased among audiences aged 55 and over, and remained stable among 16-24s (2.8 hours per day). However, viewing by 25-34s decreased from 3.5 to 3.3 hours per day between 2005 and 2011<sup>22</sup>.
- **The average amount of time UK adults spend listening to radio each week has dropped from 24.4 to 22.5 hours over the past ten years, according to RAJAR.** This decrease has been largely driven by a drop among 15-24 year old radio listeners, from 21.8 hours in 2001 to 17 hours of listening a week in 2011. There has been a less pronounced drop for the 65+ audience; from 26.6 hours a week in 2001 to 25.8 hours in 2011.
- **The proportion of 16-24s who live in homes where mobile is the sole form of telephony is more than double the UK average.** While mobile-only homes have risen from 10% in 2006 to 15% in 2012, the increase has been greatest in the 16-24 and 25-34 age groups. Thirty three per cent of 16-24s and 26% of 25-34s now live in mobile-only households, compared to 1% of over-75s.
- **The rise in mobile-only homes among younger people is likely to be linked to the increase in take-up of smartphones.** Take-up is highest among younger age groups; 66% of those aged 16 to 24, and 60% of those aged 25 to 34 have a smartphone, compared to 2% of those aged 65 and over (Q1 2012).
- **According to Ofcom's media literacy research (2011), 16-24s are most likely to choose their mobile as the medium they would miss most (40%), compared to 1% of the 65+ age group.**
- **Eighty per cent of UK homes now have internet access.** While penetration is high among those aged under 55, it is much lower among the over-65s (46% in Q1 2012).

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<sup>21</sup> See Digital Decade section in the 2011 Communications Market Report

<sup>22</sup> Note: BARB introduced a new measurement panel on 1st January 2010. As a result comparison of pre and post panel data should be treated with caution.

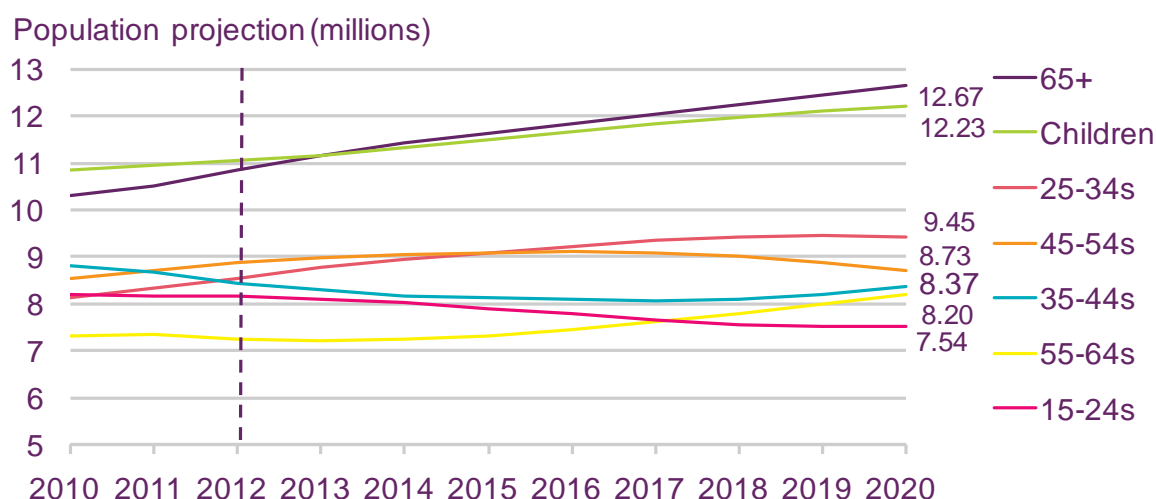


## 1.5.2 The UK population

### The over-65 population is predicted to increase by 1.8 million between 2012 and 2020

In this section we compare the media behaviour of 16-24s with that of older adults, so it is important to note the age profile of the UK population today and how it is predicted to change in the future. Today it is estimated that 13% of the population are aged 15-24 and 17% are aged 65+. Over the next eight years it is predicted that the number of 16-24s in the UK will drop by 0.7 million (to make up 11% of the population) and the number of people aged 65+ will grow by 1.8 million, to make up 19% of the population (Figure 1.31).

**Figure 1.31 UK population predictions, by age group: 2010 - 2020**



Sources: ONS 2010-based National Population Projections, published 26 October 2011

Life expectancy is increasing in the UK, rising for men from 73 in 1990 to 78.5 by 2010, and for women from 78.7 to 82.1<sup>23</sup>. Some traditional life stage milestones are also happening later in life. For example, in 1991 9% of births were to women over 35; by 2009 it was 20%<sup>24</sup>

### Media consumption and use by different age groups

#### The rate of adoption of some technologies is slower among older age groups

Our research shows growth in uptake of new media devices across all age groups, but as we can see in Figure 1.32, take-up is slower among older age groups. For example, 90% of 16-24s have internet access at home, compared to 46% for the 65+ age group. Although mobile phone ownership has grown rapidly among the 65+ group, up from 47% in 2005 to 68% in Q1 2012, this is still lower than for 16-24s (98% own a mobile phone).

<sup>23</sup> Source: ONS UK Interim Life tables 198-82 to 2008-2010

<sup>24</sup> Source: ONS Households and Families Social Trends 2010

**Figure 1.32 Take-up of internet, digital video recorders and mobile phones, by age**

	Internet		DVR		Mobile	
	2005	2012	2005	2012	2005	2012
<b>All Adults</b>	54%	80%	11%	47%	80%	92%
<b>16-24</b>	60%	90%	19%	45%	92%	98%
<b>25-34</b>	62%	90%	10%	51%	91%	98%
<b>35-44</b>	71%	91%	16%	55%	91%	97%
<b>45-54</b>	70%	85%	15%	52%	84%	97%
<b>55-64</b>	59%	75%	7%	47%	75%	91%
<b>65+</b>	24%	46%	4%	31%	47%	68%

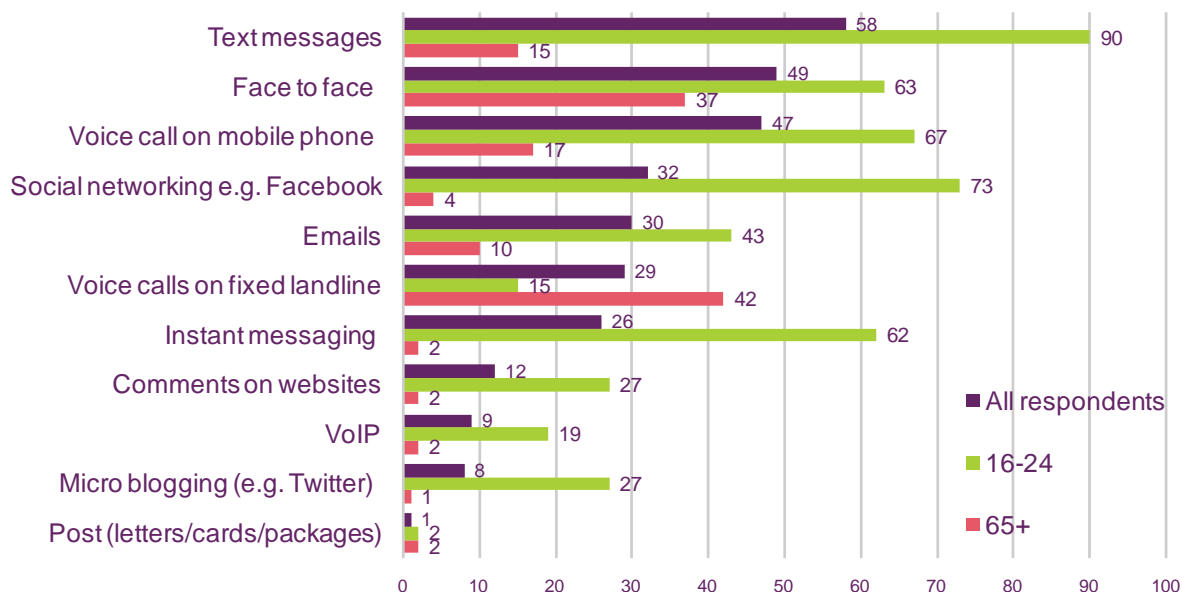
Source: Internet, Mobile phone Ofcom's Technology Tracker Q1 2012, 2005. DVR figures from Ofcom's Media Literacy Tracker Q1 2005 and Ofcom's Technology Tracker, Q1 2012. Internet figures represent total internet access home via fixed/mobile or mobile phone.

**16-24s differ in their methods of personal communication compared to those aged 65+**

Figure 1.33 illustrates that 16-24s communicate with friends and family on a daily basis more than UK adults as a whole, and using a wide range of devices. Text messaging is their number-one way to communicate each day, with 90% of 16-24s doing this, and they are least likely to use a fixed-line phone (15%). The opposite is the case for the 65+ age group, who are more likely to use a fixed-line phone to communicate with family and friends each day than any other method (42%).

In addition, the research shows that 16-24s are more likely to use some newer forms of communication such as VoIP (19%) and Twitter (27%) on a daily basis to communicate with family and friends.

**Figure 1.33 Methods of communication used at least once a day to communicate with friends and family**



Source: Ofcom research, 2012

Q2a: How often do you use x to communicate with friends and family?

Base: UK adults who use communication methods aged 16+, n = 1980

Any text-based services: text messages, social networking, emails, instant messaging, comments on websites, micro blogging, post

Any voice-based services: voice calls on mobile, voice calls on fixed landline, VoIP

### 1.5.3 Television viewing

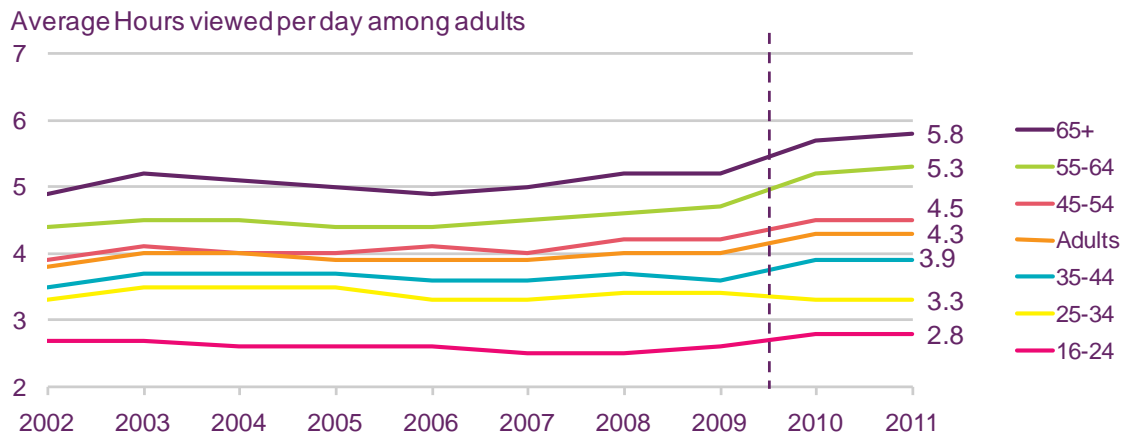
#### Television viewing has increased over time but not consistently among all age groups

Television has been a highly resilient medium over the past 10 years. Figure 1.34 shows that according to BARB, average adult viewing rose from 3.8 to 4.3 hours a day between 2002 and 2011<sup>25</sup>.

The average viewer aged 65+ spends over double the time viewing TV than the average 16-24 year old (5.8 hours vs 2.8 hours in 2011). Viewing among 16-24s has remained stable; however, there is evidence of changing viewing behaviour among 25-34s. Overall television viewing has fallen among 25-34s in recent years (from 3.5 to 3.3 hours per day between 2005 and 2011).

<sup>25</sup> Note: The BARB panel changed on the 1st January 2010 and any comparisons with data prior to this should be made with caution.

**Figure 1.34 Television viewing (hours per day) over time, by age group**

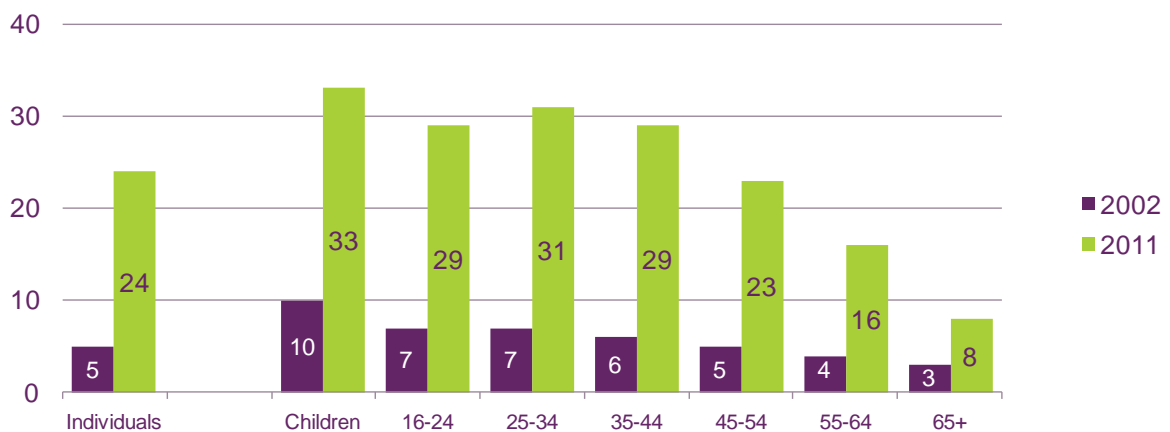


Source: BARB, all homes, average hours of daily viewing among adults. New BARB panel introduced 1st Jan 2010. As a result pre- and post-panel change data should be treated with caution

**The under-45s watch a wider repertoire of television channels**

Digital television has made more channels available to UK audiences. Figure 1.35 shows the impact that this has had on the number of channels watched by UK adults. The average number of channels watched has increased from five in 2002 to 24 in 2011. For adults under 45, 75% of their viewing is accounted for by 30 channels. People aged 65+ have changed their viewing habits much less - in 2002 75% of their viewing was to three channels (BBC One, ITV1 and BBC Two) and this has risen to an average of eight channels in 2011.

**Figure 1.35 Number of channels representing 75% of viewing, by age: 2002 vs.2011**

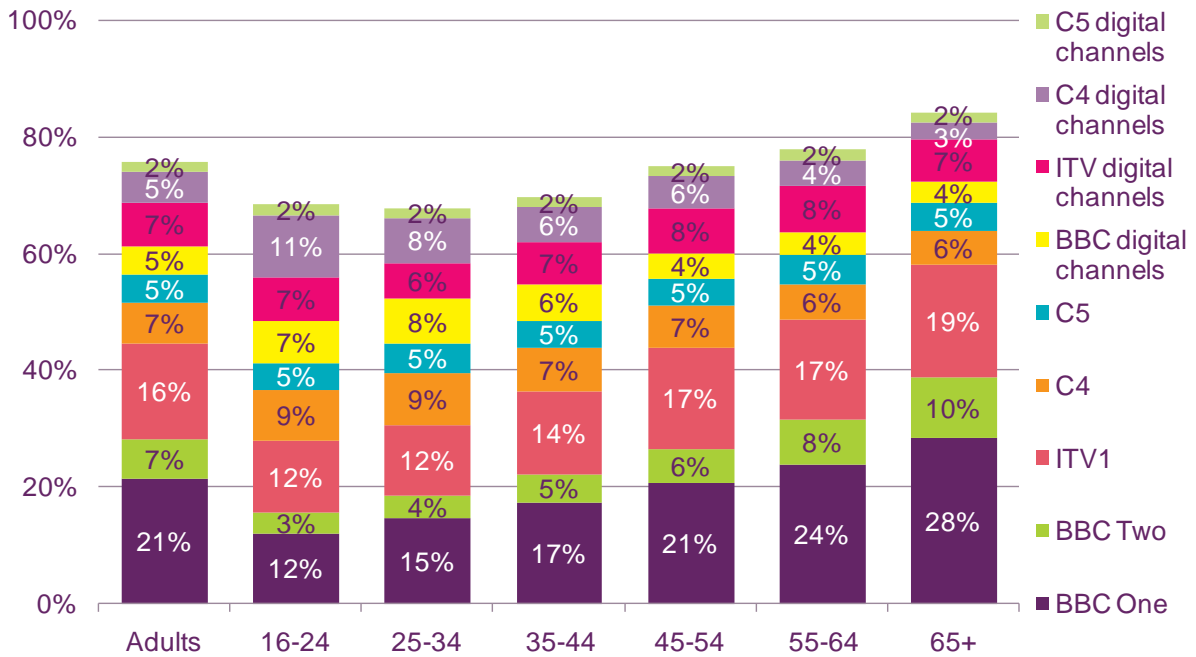


Source: BARB, all individuals, network. Individuals= 4+, Children= 4-15 years. Based on the number of channels representing 75% of each age group's viewing (channels ranked by channel share). New BARB panel introduced 1st Jan 2010. As a result pre- and post-panel change data should be treated with caution

**Younger viewers are watching less on the main five PSB channels but more on the PSBs' portfolio channels, compared to older age groups**

Figure 1.36 shows that 40% of 16-24s' viewing is to the five main PSB channels, compared to nearly 75% for the 65+ age group. The PSBs' portfolio channels account for 27% of 16-24s total TV viewing, compared to 16% for the 65+ age group.

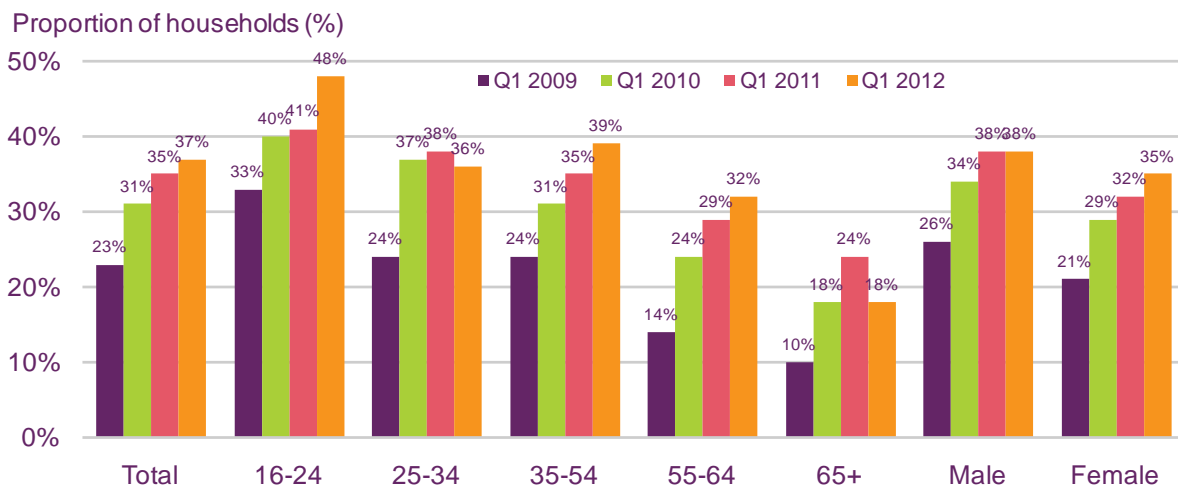
**Figure 1.36 Share of viewing for the main five PSB channels and their portfolio channels**



Source: BARB Q1 2012 – all adults 16+, Q1 2012

There are many other differences in television consumption by age, including: time-shifting is more prevalent among younger audiences (20% of viewing by under-35s is time-shifted compared to 11% for the 65+ age group)<sup>26</sup>, and 48% of 16-24s with internet access at home watch online catch-up TV, compared to 18% of those aged 65+.<sup>27</sup>

**Figure 1.37 Proportion of adults with home internet who watch online catch-up TV**



Source: Ofcom research Q1 2012

QE5A. Which, if any, of these do you or your household use the internet for whilst at home?

Base: All adults who have the internet at home (n=2823 UK, 423 16-24, 524 25-34, 1113 35-54, 431 55-64, 330 65+, 1367 Male, 1456 Female)

<sup>26</sup> Source: BARB 12 month data , 2011

<sup>27</sup> Source: Ofcom research Q1 2012 QE5A. Which, if any, of these do you or your household use the internet for whilst at home?

Overall, the research evidence suggests that the amount of television viewed is in part related to lifestyle and age – as people get older they tend to watch more television. However, the research shows that younger age groups are watching a wider variety of content than older people and are more likely to use different devices, such as catch-up services, to access television. They may take these habits with them as they age.

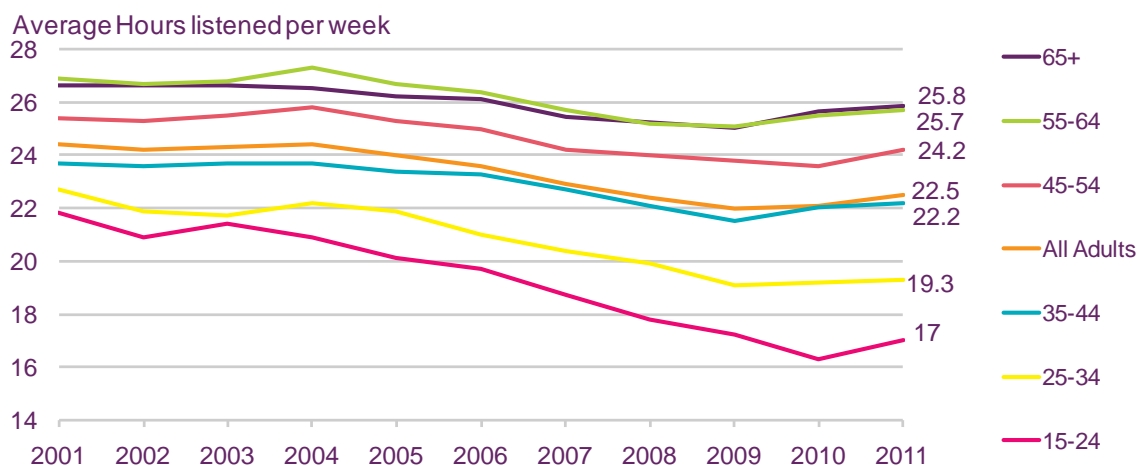
### 1.5.4 Radio listening

#### Radio listening has declined, with adult average listening hours down 7.8% between 2001 and 2011

Figure 1.38 shows that, according to RAJAR, adult average weekly listening to radio<sup>28</sup> has dropped from 24.4 to 22.5 hours over the past ten years (down 8%). This drop has been largely driven by a decrease among 15-24 year old listeners; from 21.8 to 17.0 hours' listening a week (22%). For the 25-34s there has been a drop in listening, from just under 23 hours per week to slightly over 19 hours. There has been a less pronounced decrease for the 65+ audience; from 26.6 hours a week in 2001 to 25.8 hours in 2011 (3%).

However, the results also indicate a small uplift in listening year on year from 2010 to 2011, for each age group.

**Figure 1.38 Average hours listened per week, by age: 2001 - 2011**



Source: RAJAR, weekly listening per listener to all stations at a network level, and on the 12 months of each respective year ending Q4.

A 2010 BBC study showed that 82% of all adult audio consumption was radio listening, but that radio listening accounted for only 56% of 15-18s audio consumption.<sup>29</sup>

<sup>28</sup> RAJAR uses a diary-based survey to measure live listening to radio stations on analogue/DAB radio sets, digital TV, and online.

<sup>29</sup>Source: BBC (A&M Audiences) Brand Driver, Share of Ear research 2010

**Figure 1.39 Radio's share of audio, by all adults and 15-18s: 2009-2010**



Source: BBC (A&M Audiences)/Brand Driver, Share of Ear research 2009, 2010

Ofcom's media literacy research (2011) shows that 16-24s are more likely to listen to other audio via a range of devices, 62% regularly listen to music on their mobile,<sup>30</sup> compared to 28% for all adults; and 62% via an mp3 player, compared to 34% for all adults.<sup>31</sup>

**Over the past ten years there has been a rise in the proportion of people listening to four or more radio stations**

Figure 1.40 shows that since 2002 there has been a rise in the proportion of UK adults listening to four or more radio stations. The largest increase is among 25-34s - the proportion listening to four or more stations has risen from 24% in Q1 2002 to 31.5% in Q1 2011, whereas for 15-24s this has remained steady at around 36%. Similarly, for the 65+ age group there has been little change, with 17.5% listening to four or more stations.

**Figure 1.40 Percentage of people listening to four or more stations, by age: 2002 vs. 2011**

	Q1 2002	Q1 2011	% change
<b>Adults</b>	24.0%	28.0%	+16.7%
<b>15-24</b>	34.0%	36.0%	+5.9%
<b>25-34</b>	24.0%	31.5%	+31.3%
<b>35-44</b>	24.5%	30.0%	+22.4%
<b>45-54</b>	23.3%	30.0%	+28.8%
<b>55-64</b>	20.5%	25.6%	+25%
<b>65+</b>	15.0%	17.5%	+16.7%

Source: RAJAR 3 month data number of stations listened to Q1 2002 and Q1 2011

<sup>30</sup>Source: Ofcom Media Literacy Tracker 2011 QM8A) Please tell me from this list the types of things you use your mobile phone for

<sup>31</sup>Source: Ofcom Media Literacy Tracker 2011 QA1) Which of the following do you regularly do? (Prompted responses, multi-coded)

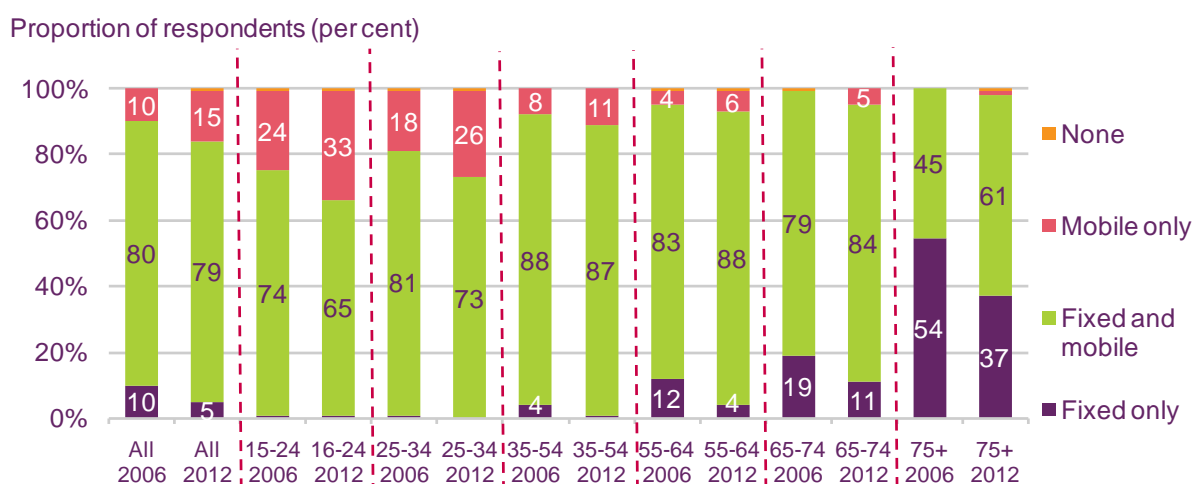
In summary, the research evidence suggests that younger age groups are listening to less radio, compared to the same age group ten years ago, and may be substituting some radio listening for other audio content on devices such as mobile phones or mp3 players.

### 1.5.5 Telephony services

#### Mobile-only households have increased most in the 16-24 and 25-34 age groups

Figure 1.41 shows that 33% of 16-24s and 26% of 25-34s live in homes where mobile is the sole form of telephony – this is around double the UK average of 15%. These proportions have grown among the under-35s since 2006. This change is not being seen to the same extent in any other age group.

**Figure 1.41 Household penetration of fixed and mobile telephony, by age**



Source: Ofcom Technology Tracker Q1 2012 and Ofcom Residential Tracker 2006

#### Changes in mobile use are likely to be driven by take-up of smartphones

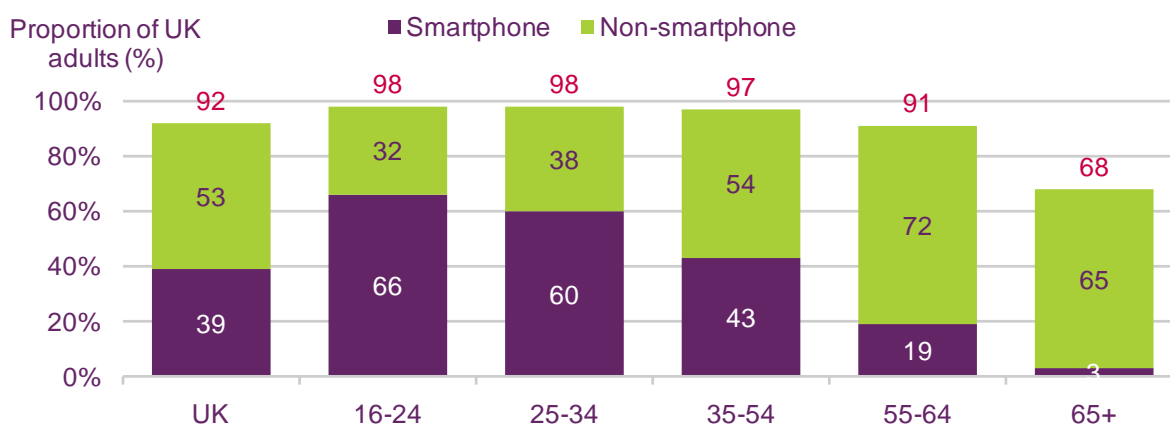
Figure 1.42 shows that 98% of 16-34s and 97% of 35-54s use a mobile phone and ownership drops slightly to 91% for 55-64s. Ownership remains lower among the 65+ age group, although 68% now use a mobile, up from 47% in 2005. The chart also shows that 39% of adults now use a smartphone, and this rises to 66% among 16-24s, and 60% among 25-34s, compared to 3% for the over-65s.

Differences by age are most apparent when we look at how people use their mobile phones and the range of activities that they undertake. 16-24s and 25-34s exhibit similar behaviour and are more likely than older mobile users to undertake a range of activities. Sixty-two per cent of 16-24s and 53% of 25-34s access social networks via their mobile phone at least once a week, compared to 29% of UK adults. Over a third of 16-24s (35%) and 25% of 25-34s visit sites such as YouTube and Bebo to look at videos at least once a week, compared to 15% of UK adults as a whole.<sup>32</sup>

<sup>32</sup> Source: Ofcom Media Literacy Tracker 2011



**Figure 1.42 Smartphone take-up, by age**



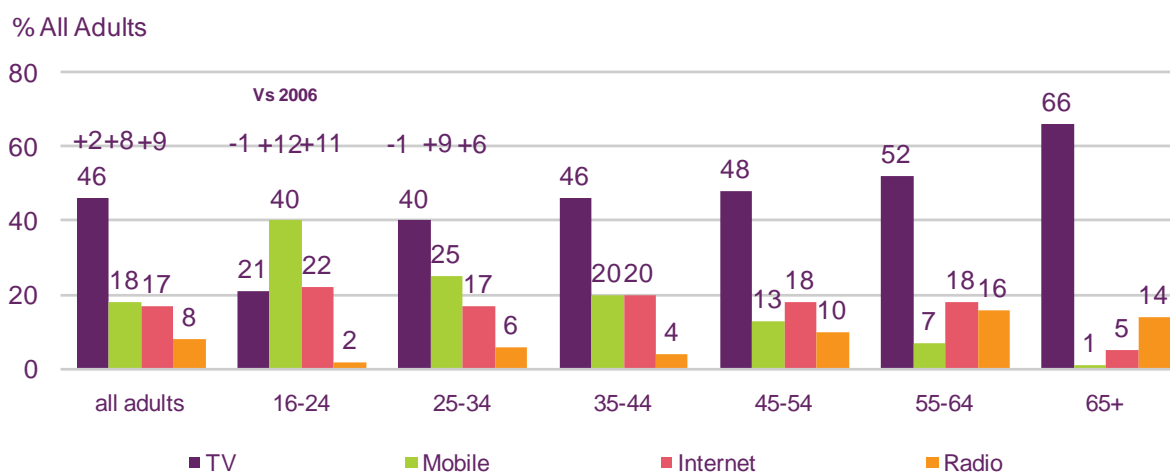
Source: Ofcom research, Q1 2012

Ofcom’s research (2012) shows that smartphone owners demonstrate some different behaviours to other mobile phone owners. Forty two per cent of smartphone users claim that their phone is their most important device for accessing the internet, rising to 51% for 16-24s, compared to 19% of over-55s. Forty-one per cent of smartphone owners say they have a ‘high level of addiction’ to their phone (rating 7/8/9/10 out of 10), and this rises to 59% for 16-24s, compared to 11% for over-55s.<sup>33</sup>

**16-24s are most likely to choose their mobile as the medium they would miss most (40%), compared to 1% saying this is the case among the 65+ age group**

Figure 1.43 shows that 40% of 16-24s and 25% of 25-34s say their mobile is the media activity they would miss most, compared to 1% saying this is the case among the 65+ age group. The rapid increase in smartphone take-up is likely to affect younger people’s attitudes towards their phone.

**Figure 1.43 Media activity missed the most, by age**



Source: Ofcom Media Literacy Tracker 2011 and 2006 (Q Which of these activities would you miss most? (prompted responses))

<sup>33</sup>Source: Ofcom omnibus research, March 2012 (Q14 rating Choose a number between 1 and 10, where 1 represents ‘I’m not at all addicted to my mobile phone’ and 10 represents ‘I’m completely addicted to my mobile phone’)

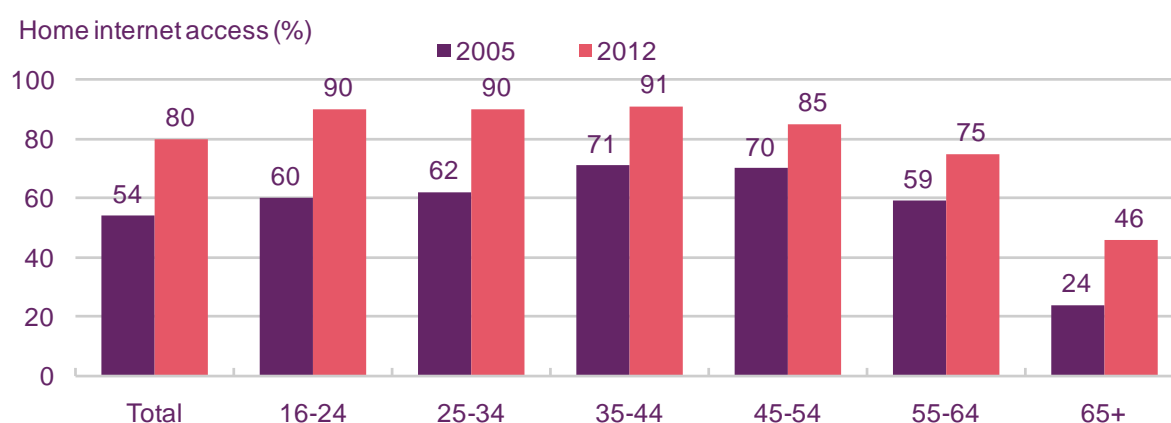
In conclusion, the research indicates that mobile phones are most important to people aged 16-24, and that this attitude is spreading to those aged 25-34 and over.

### 1.5.6 Internet use

**While eight in ten UK households have home internet access, this decreases to 46% among those aged 65+**

Figure 1.44 shows that 80% of UK homes now have internet access, up from 54% in 2005. While penetration is high among those aged under 55, it is much lower among the over-65s (46% in Q1 2012).

**Figure 1.44 Household internet access, by age: 2005 vs 2012**



Source: Ofcom Technology Tracker Q1 2012, Ofcom Residential Tracker Q1 2005. Total internet access is based on fixed/mobile and mobile phones.

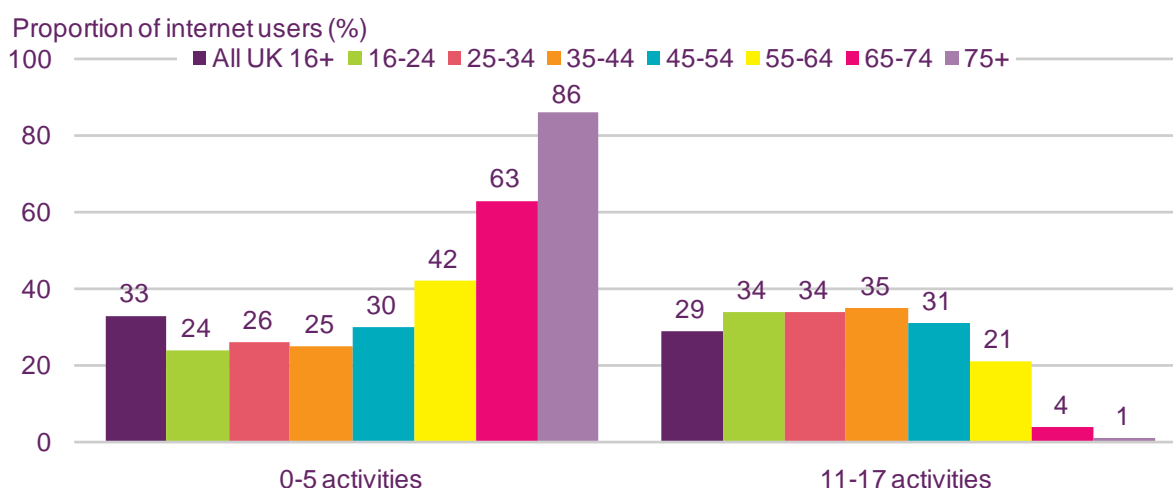
There are a number of differences by age group in terms of volume and range of online use, and the devices used to go online.

Ofcom's 2011 media literacy study showed that 16-24s claim to spend the most time online;<sup>34</sup> 19.6 hours a week compared to the all-adult average of 15.1 hours. 25-34s also spend more time online than average.

Figure 1.45 shows that younger people undertake a wider range of activities online. Over a third of internet users aged 16-44 take part in between 11 and 17 different activities online, compared to 4% of 65-74s and 1% of those aged 75+.

<sup>34</sup> Claimed 'time spent online' covers at home or elsewhere.

**Figure 1.45 Breadth of internet use (number of activities undertaken), by age**

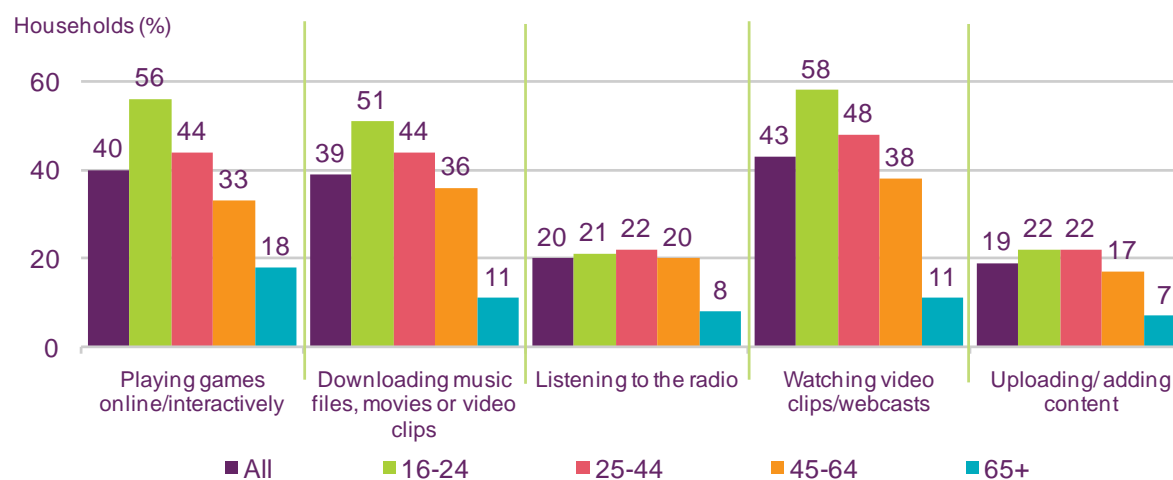


Source: Ofcom Technology Tracker, Q1 2012

Ofcom's research (Q1 2012) shows that 64% of adults with home internet access use social networking sites at home. While this is highest among 16-24s (89%) it is also high among 25-34s (73%) and 35-54s (67%), and drops to 21% among those aged 65 and over.<sup>35</sup>

Figure 1.46 shows that 16-24s are more likely than other age groups to undertake a range of activities online, particularly playing games, downloading video and audio and watching video clips and webcasts.

**Figure 1.46 Household internet activities, by age**



Source: Ofcom research, Q1 2012 Base: All adults who have the internet at home (n= 2823) QE5A: Which, if any, of these do you or members of your household use the internet for while at home?

In summary, the research indicates that while 16-24s are most likely to undertake a range of activities online, broadly consistent behaviours are developing among under-65 age groups overall in terms of internet take-up and use.

<sup>35</sup>Source: Ofcom Technology Tracker Q1 2012

# 1.6 The fourth screen

## 1.6.1 Introduction and background

The research in this section provides an overview of take-up and use of tablet computers and e-readers.

An e-reader (electronic reader) is a digital device for reading material such as e-books and newspapers (e.g. Kindle, Sony Reader, Kobo eReader, iRiver Reader). A tablet computer is a personal computer contained in a single panel (e.g. Apple's iPad, Samsung, or Archos), with features including a large touch screen.

## 1.6.2 Summary of key findings on tablet owners

This research, new to Ofcom in 2012, sets out to examine why consumers purchase tablets; how consumers are engaging with them and how this affects their use of other devices.

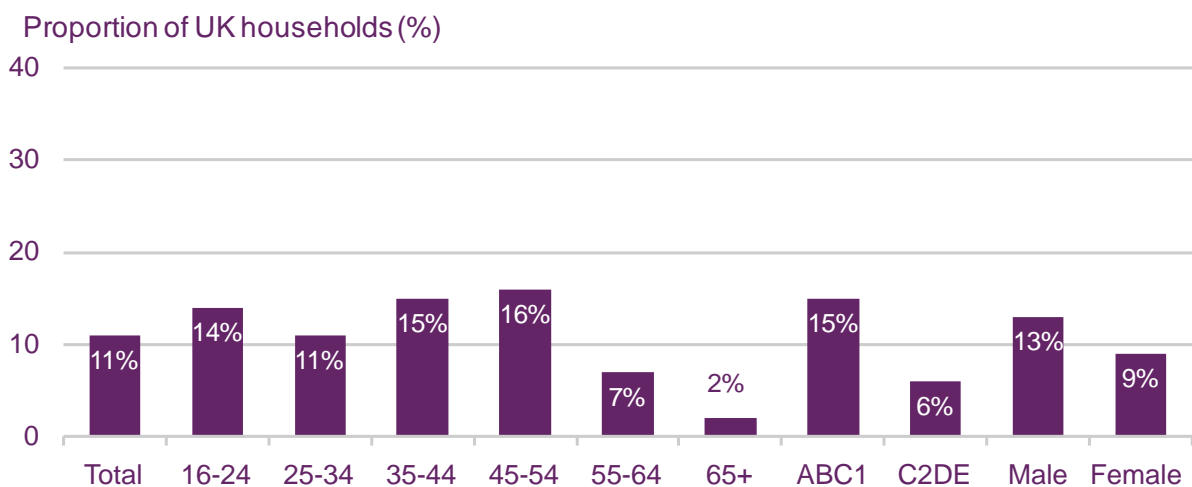
- **Tablet ownership has risen rapidly in the past year; from 2% to 11% of UK households in Q1 2012.** This growth looks set to continue, as 17% of adults said they intended to buy a tablet in the next year
- **Ownership is higher among some groups** including: those aged 45-54 (16%), households with children (16% take-up), AB social groups (19%), higher-income groups (22% of those with £30k+ household income have a tablet), and those living in London and the south east (15% and 17% respectively).
- **The most common motivation for purchase is entertainment.** Fifty-six per cent of tablet owners bought their tablet for entertainment reasons. Half of all respondents (53%) said that easy access to the internet was a reason for buying a tablet computer. Likewise, 52% highlighted "easy to carry around" as a reason for purchase. However, 45% said they didn't really need one, but bought it as a treat for themselves.
- **Even though a key reason for purchase is portability, 87% of tablet owners primarily use their tablet at home.**
- **Tablet computers are used on a regular basis.** Seventy-four per cent claimed to use their tablet to connect to the internet every day, or most days.
- **Tablets can increase time spent online** – 37% say that they browse the internet more than they did before owning a tablet. On the other hand, owning a tablet often leads to using other devices, such as a laptop or desktop PC, less. Thirty-seven per cent say they use their laptop less since owning a tablet and a third (33%) use their desktop PC less.
- **Tablet owners have a strong relationship with their new device** – over a third (34%) of respondents agreed with the statement: "I couldn't live without my tablet computer". Nine in ten (87%) of consumers are satisfied with their tablet.
- **Two-thirds of users regularly or occasionally share their tablet with others.**

### 1.6.3 Tablet take-up

Tablet take-up has risen substantially in the past year, from 2% in Q1 2011 to 11% of UK households by Q1 2012 (Figure 1.47). This trend looks set to continue as 17% of UK households said they intended to purchase a tablet in the next year.

In Q1 2012, one in ten (11%) adults owned a tablet computer. The Ofcom technology tracker shows that ownership was highest among those aged 45-54 (16%). There is also a skew in ownership towards households with children (16% take-up), AB social groups (19%), higher incomes (22% of those with £30k+ household income have a tablet), and those living in London and the south east (15% and 17% respectively). Men (13%) are slightly more likely than women (9%), to have a tablet computer, as are people in ABC1 households - 15% compared to 6% of C2DE homes.

**Figure 1.47 Take-up of tablet computers by age, SEG and gender**

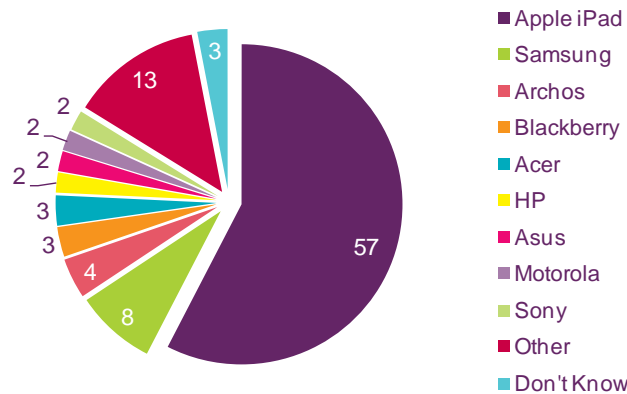


Source: Ofcom Technology Tracker 2012  
Base: 2012: 3772

Two-thirds (65%) own a tablet that connects to the internet via a WiFi connection, while 33% own WiFi and 3G-enabled versions.

According to Ofcom's research, Apple's iPad is the most popular brand overall, with just over half (57%) of tablet owners having this brand, followed by Samsung (8%) and Archos (4%).

**Figure 1.48 Claimed ownership, by tablet brand**



Source: Ofcom research  
 Q.B1 Firstly, what brand of tablet computer is it?  
 Base: All respondents with a tablet computer: 500

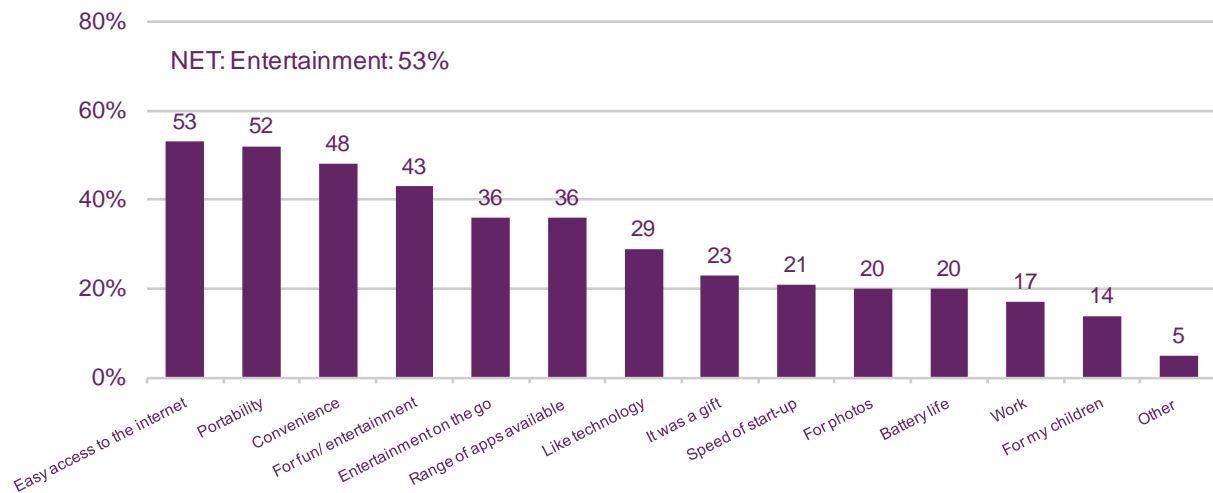
**1.6.4 Reasons for purchasing a tablet**

**Entertainment and easy internet access drive tablet purchases**

Consumers list a wide variety of reasons for purchasing a tablet computer, with entertainment the most cited reason. Fifty-six per cent of respondents claimed that ‘fun/entertainment’ or ‘entertainment on the go’ were reasons for deciding to buy a tablet. In addition, half of all respondents (53%) cited easy access to the internet as a reason for purchase. Just over half (52%) highlighted the portability of the device as a factor, while one in five (23%) received the tablet as a gift (Figure 1.49).

Treating oneself, rather than actual need, also appears to be an important factor when deciding to purchase a tablet. Forty-five per cent of respondents agreed with the statement “I didn’t really need one, but I bought my tablet computer as a treat for myself”.

**Figure 1.49 Reasons for purchasing a tablet<sup>36</sup>**



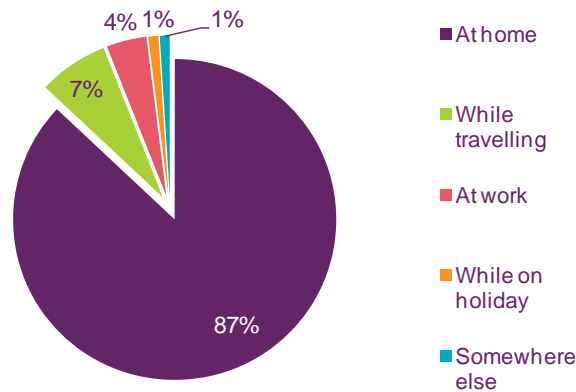
Source: Ofcom research  
 Q.B6 Why did you decide to buy a tablet computer?  
 Base: All respondents with a tablet computer: 500

<sup>36</sup> Net entertainment code is a net of those who responded either ‘for fun/entertainment’ or ‘I can use it for entertainment on the go’

## Tablets are predominantly used in the home

Despite the portability factors, such as “being able to use a tablet for entertainment on the go” and “its ease of carrying” being popular reasons for purchasing a tablet, 87% of consumers primarily use their tablet in the home (Figure 1.50).

**Figure 1.50 Where tablets are used**



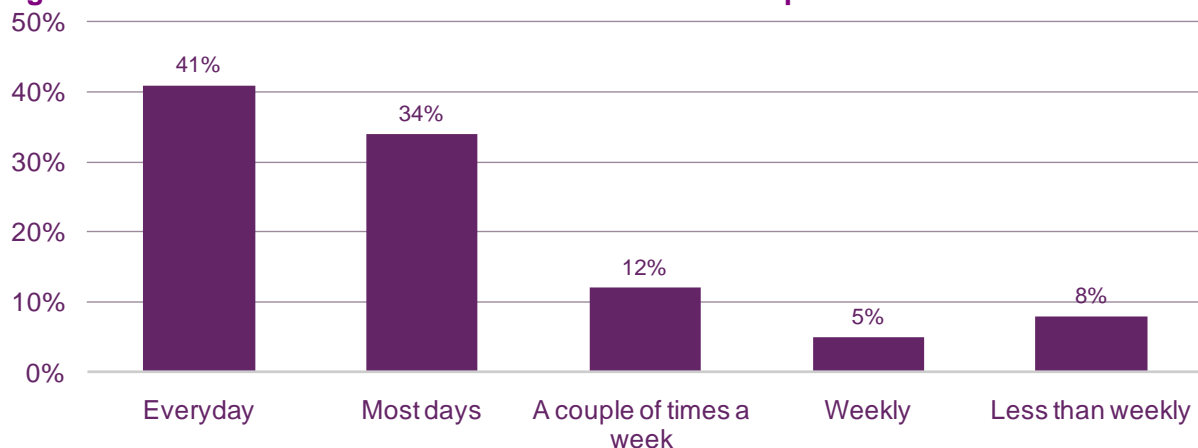
Source: Ofcom research  
Q.B9 Where do you primarily use your tablet computer?  
Base: All respondents with a tablet computer: 500

## 1.6.5 Tablet uses

### Seventy-five per cent of consumers use their tablet most days or more

Forty-one per cent of consumers use their tablet every day and a further 34% use the device most days (Figure 1.51). Of those who use a tablet daily, the mean time spent per day is just under two hours. Sixty-two per cent of daily users spend an hour or more per day on the device.

**Figure 1.51 How often consumers use their tablet computer**



Source: Ofcom research  
Q.B7 How often do you tend to use your tablet computer?  
Base: All respondents with a tablet computer: 500

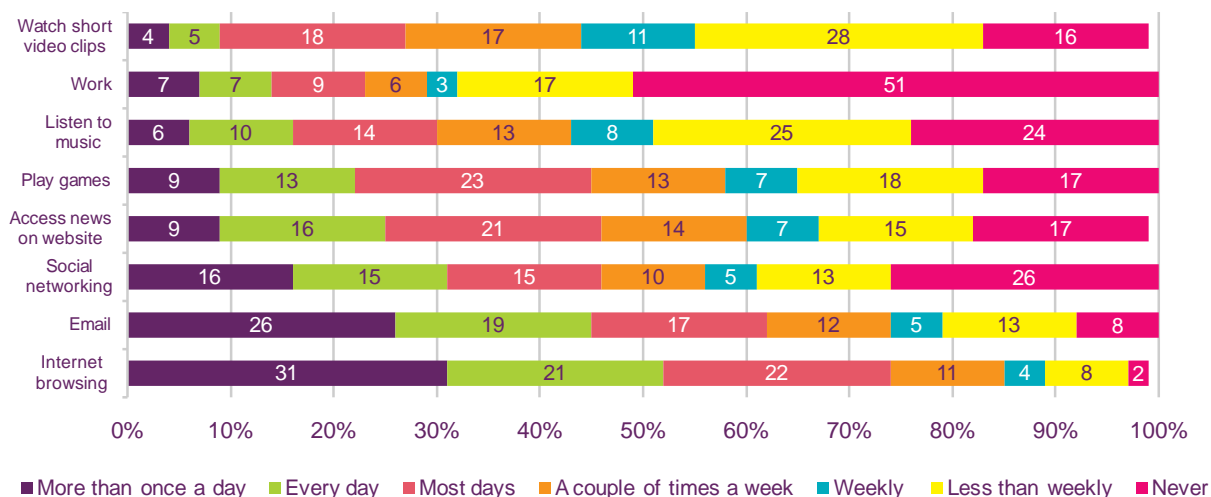
## Internet browsing and checking email are popular activities on a tablet computer

Browsing the internet is the activity that people do most frequently on their tablet, with three-quarters (74%) using their device to connect to the internet every day, or most days (Figure

1.52). Moreover, 37% of users claim to browse the internet more than they did before owning a tablet.

Tablets are used frequently for checking email; 63% claim to do this every/ most days (Figure 1.52). Nearly half (46%) go on social networking sites every/ most days (Figure 1.52) and since owning a tablet 23% of our panel claimed to spend more time on social networking sites more than they did previously. Other activities carried out by a large proportion of consumers every day or most days are: accessing news via a website (46%) and playing games (45%).

**Figure 1.52 Frequency of activities using a tablet**



Source: Ofcom research

Q.B11 How often, if at all, do you use your tablet computer for each of the following?

Base: All respondents with a tablet computer: 500

### 1.6.6 Impact on behaviour of tablet users

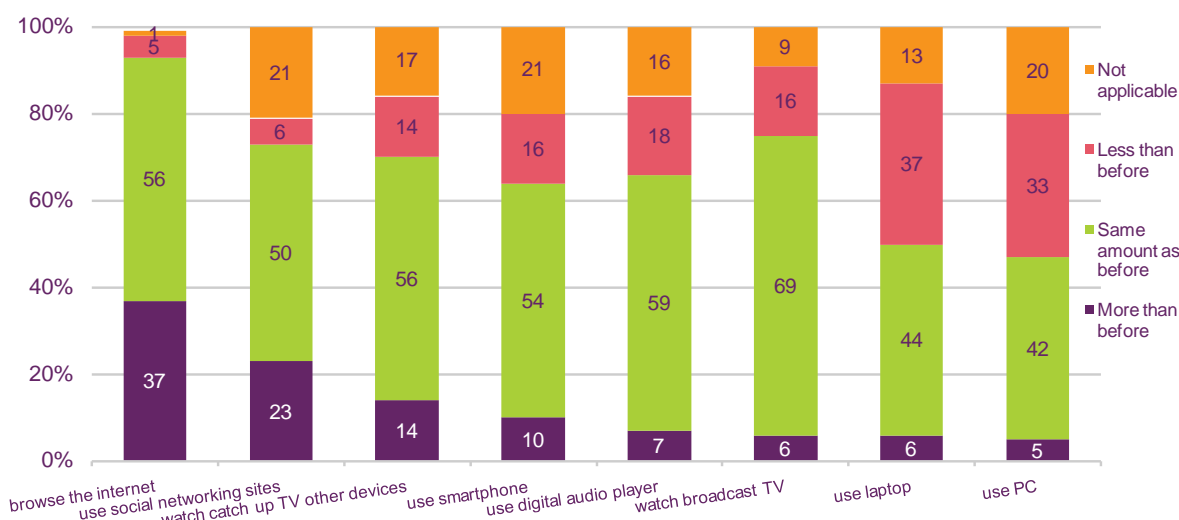
#### Tablets are increasing the amount of time people spend online

Tablets are affecting individuals' online behaviour. Around four in ten (37%) say they are browsing the internet more since owning a tablet, while around one quarter (23%) say they are doing more social networking.

Tablets are also affecting engagement with other devices; including laptops and desktop PCs. Our research shows that 37% use their laptop less since owning a tablet, and one third (33%) use their desktop PC less. And 16% say that they watch less broadcast TV than before they owned a tablet (Figure 1.53).



**Figure 1.53 Impact on behaviour**



Source: Ofcom research

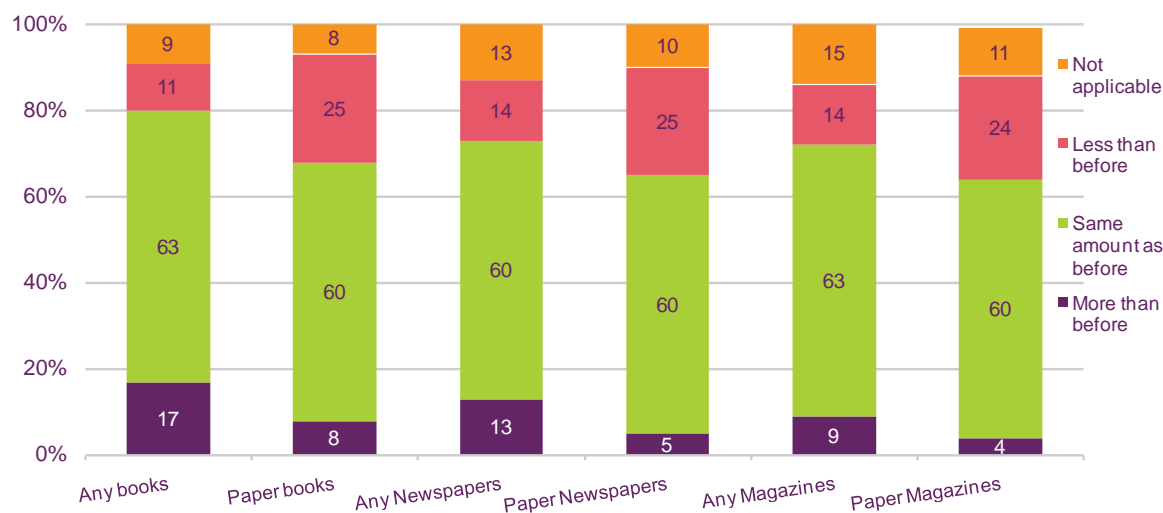
Q.B20 For each of the activities below can you tell us whether you are doing it more, less or the same amount since owning your tablet computer?

Base: All respondents with a table computer: 500

**Tablet owners reading less paper material**

Since owning a tablet 39% of respondents claim to read less content on paper than before (the net reduction of paper books, paper newspapers and paper magazines shown in Figure 1.54). However, 17% claim to read more books (either eBooks or paperbacks) than before they owned a tablet computer, whereas 11% claim to read fewer.

**Figure 1.54 Impact on reading behaviour**



Source: Ofcom research

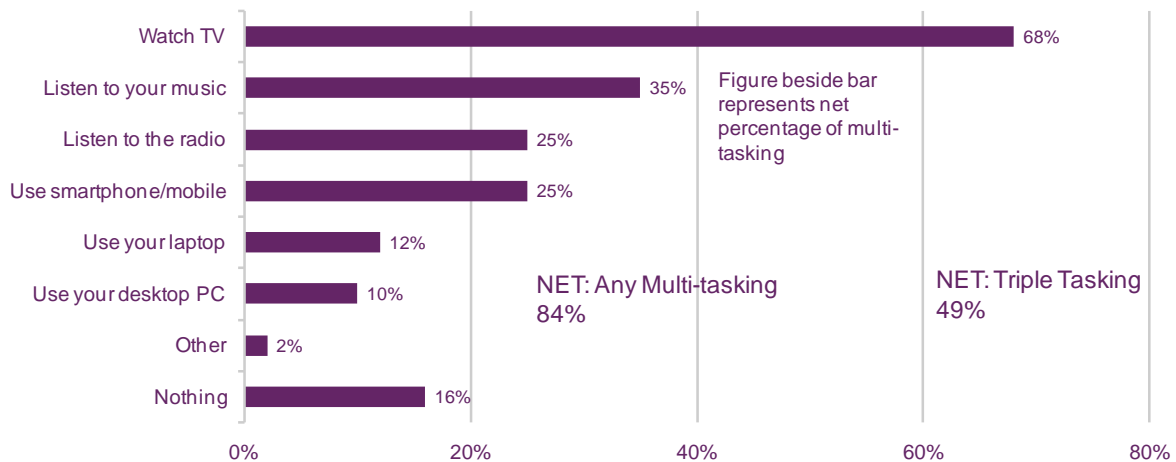
Q.B13/14 Since owning your tablet computer have you read books, magazines or newspapers more or less than before?/ We'd now like you to think specifically about paper based content - so since owning your tablet computer have you read books, magazines or newspapers more or less than before?

Base: All respondents with a tablet computer: 500

## Most users multi-task while on their tablet computer

Eighty-four per cent of tablet users say that they multi-task in some way while using their tablet, while half (49%) of them triple-task. Watching television (68%) is the most common activity done concurrently with using a tablet. Our research shows that 35% of consumers listen to music while using a tablet (Figure 1.55).

**Figure 1.55 Multi-tasking while using a tablet**



Source: Ofcom research

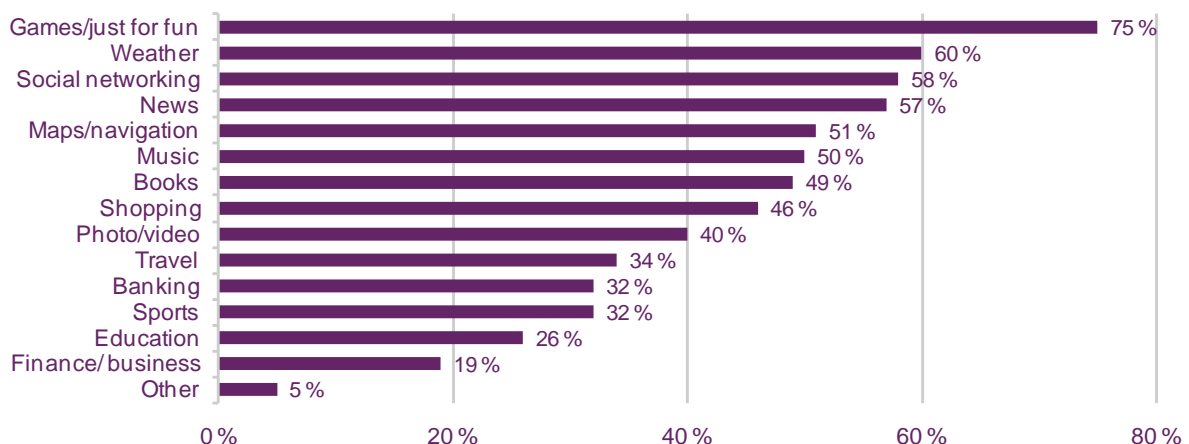
Q.B12 Some people multi-task while using their tablet computer. Which, if any, of the following things do you tend to do at the same time as using your tablet computer?

Base: All respondents with a tablet computer: 500

## Games/ fun apps are the most popular applications

Virtually all respondents (97%) have apps on their tablet computer. According to Ofcom's research, the mean number of apps on a tablet is 17, although 45% say that they use less than half of their apps regularly. Of those with apps, 80% of owners say that they paid for fewer than half of them. The most popular types downloaded are: games/'just for fun' apps (75%), weather apps (60%) and social networking apps (58%) (Figure 1.56).

**Figure 1.56 Types of apps downloaded onto a tablet**



Source: Ofcom research

Q.B18: Which of the following types of apps have you downloaded?

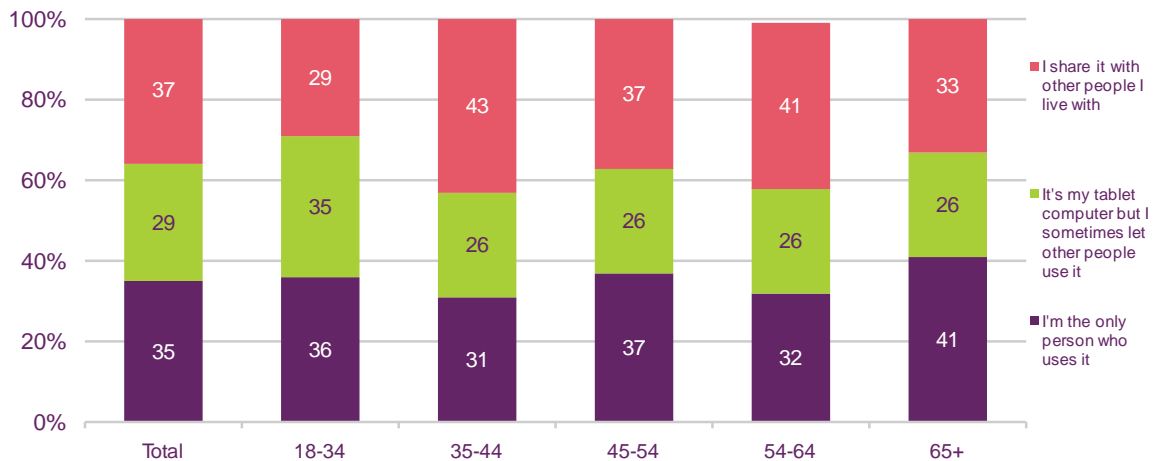
Base: All respondents with apps on their tablet computer: 484

## 1.6.7 Sharing tablets with others

### Two-thirds of consumers share their tablet in some way

One third (37%) of consumers share their tablet with the other people they live with, while a further 29% sometimes let other people use their tablet. Eighteen to thirty-four year-olds are least likely (29%) to share their tablet with the people they live with, and those aged 35 and over are more likely to share their device with others (Figure 1.57).

**Figure 1.57** Sharing vs. personal device



Source: Ofcom research

Q.B5 Which of these statements best describes who uses your tablet computer?

Base: All respondents with a tablet computer: 500

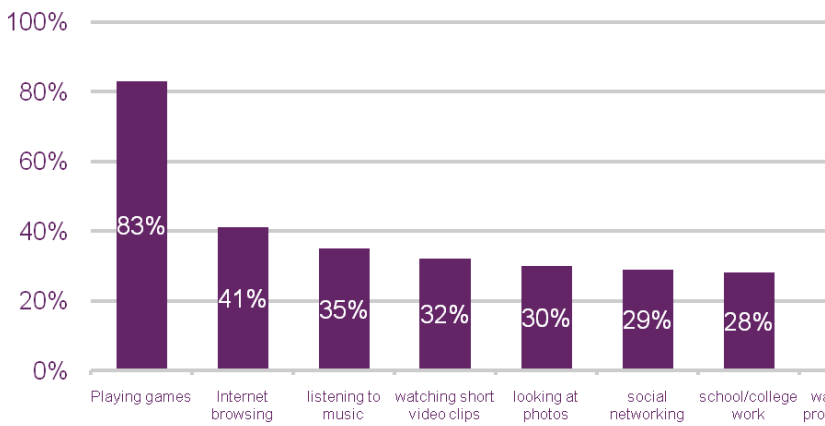
## 1.6.8 Children's use of tablet computers

### Playing games is the most popular activity carried out by children on a tablet

Eighty-five per cent of respondents with children aged 16 or under claimed their child/children had used their tablet. Of these, four in ten (39%) said their children used their tablet every day, or most days. A further 21% said their children used the tablet a couple of times a week.

According to parents and carers, 83% of child tablet users play games on them. Other popular activities carried out by children on tablets are internet browsing (41%) and listening to music (35%) (Figure 1.58).

**Figure 1.58 Tablet use among children**



Source: Ofcom research

Q.B22 What do your children use your tablet computer for?

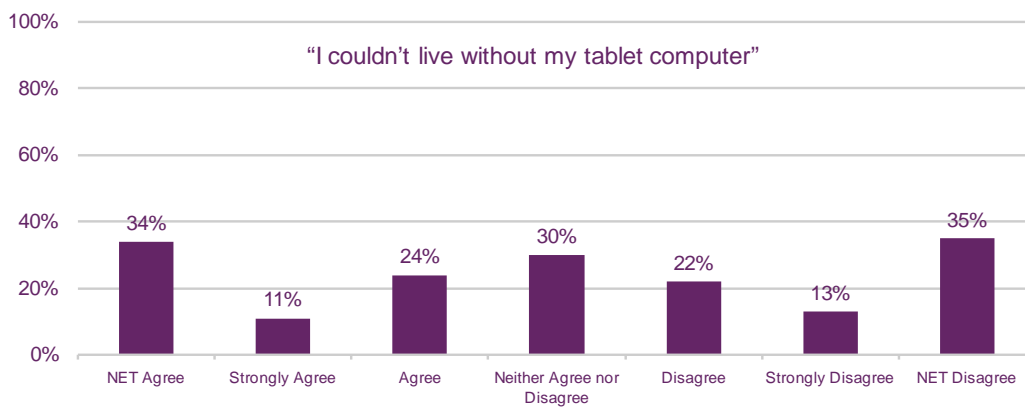
Base: All respondents with children aged under 16 who use their tablet computer: 170

### 1.6.9 Tablet satisfaction

#### Tablet owners say they can't live without it

One third (34%) of consumers agreed with the statement: "I couldn't live without my tablet computer". The same proportion (34%) agreed that they didn't really see the point of tablet computers, until they got one. Sixty-three per cent of those asked rated their tablet computer better than their initial expectations, whereas 11% said that, overall, their tablet was worse than expected.

**Figure 1.59 Personal attachment to tablets**



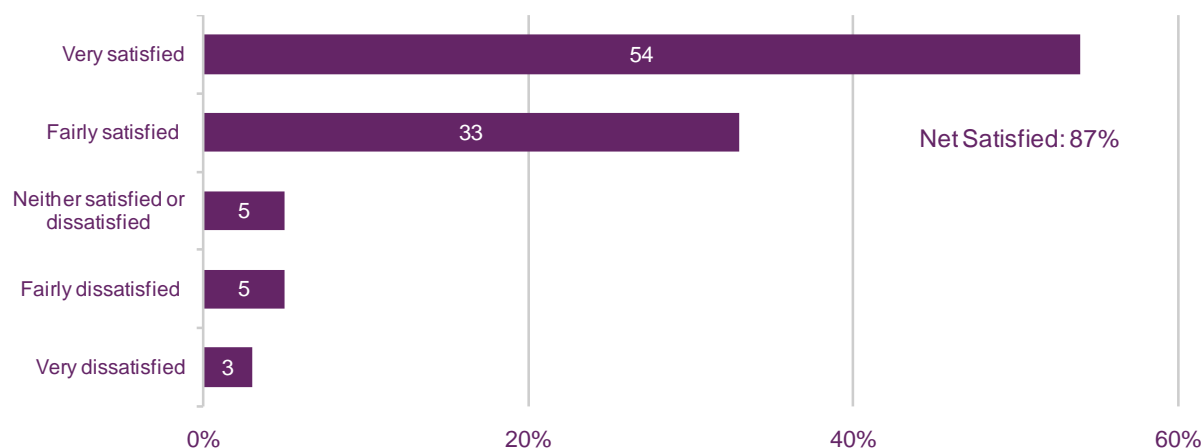
Source: Ofcom research

QB23 To what extent do you agree or disagree with the following statements?

Base: All respondents with a tablet computer: 500

Nine in ten (87%) of consumers are satisfied with their tablet computer. Of these, over half (54%) are 'very satisfied'. Less than one in ten (8%) are dissatisfied with their tablet.

**Figure 1.60 Consumer tablet satisfaction**



Source: Ofcom research

Q.B3 Taking all things into account, how satisfied or dissatisfied are you with your tablet computer?

Base: All respondents with a tablet computer: 500

### 1.6.10 Summary of key findings on e-readers

The following section outlines key findings from Ofcom's research into e-readers. It looks at why consumers purchase them, how they are engaging with them, and how this affects their use of other devices.

- **One in ten (10%) UK adults own an e-reader, an increase from 3% in 2011.**
- **Portability is the most-cited reason for buying an e-reader.** Fifty-three per cent of respondents said they decided to buy an e-reader because it was easy to carry around, 50% so they could easily carry lots of books on holiday, and 45% as it was lightweight.
- **Although it is a portable device, the majority (67%) of consumers primarily use their e-reader at home.** Despite its being a mobile device, the majority of consumers primarily use their e-reader in the home, 15% primarily use it while travelling, and 14% primarily use it on holiday.
- **While almost all consumers use their e-reader to read books, three in ten (29%) have used it to read magazines or newspapers.**
- **E-readers have a positive impact on the amount people read.** Forty-one per cent claimed to have increased their overall reading since owning an e-reader. This trend is most prominent among 18-34 year-olds - 53% of this group claimed they had read more since having an e-reader.
- **Six in ten (62%) say they read less paper-based material since owning an e-reader.** This is driven by a decrease in reading paperback books (60%). One in ten (10%) also say they have decreased reading paper magazines and 8% said they have decreased reading paper newspapers since owning an e-reader. And four in ten (44%) agree that they doubt they will buy many more paper books, although 37% disagree with this statement.

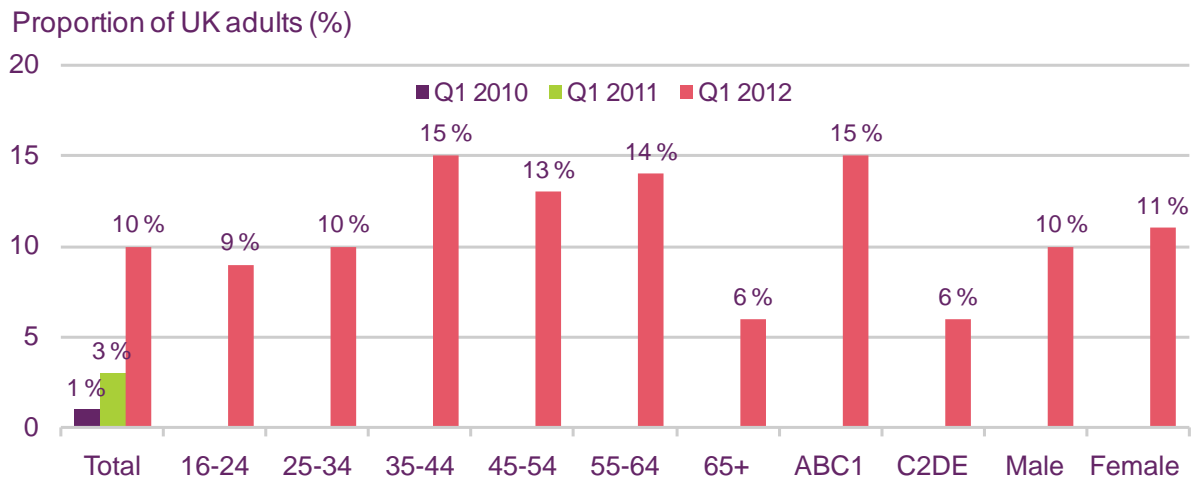
### 1.6.11 E-reader take-up

#### More people are buying e-readers

E-reader penetration has seen significant growth in the past year. Ofcom technology tracker research shows that 10% of UK adults now own an e-reader. This has risen from just 1% in the first quarter of 2010, and 3% in 2011 (Figure 1.61). This trend looks set to continue; when asked: “how likely is it that you or someone else in your household will buy another e-reader in the next six months?” 22% responded either ‘very likely’ or ‘likely’.

E-reader users are more likely to be older (14% 35-64 vs. 9% 16-34) and from the ABC1 socio-economic groups (15% vs. 6% C2DE).

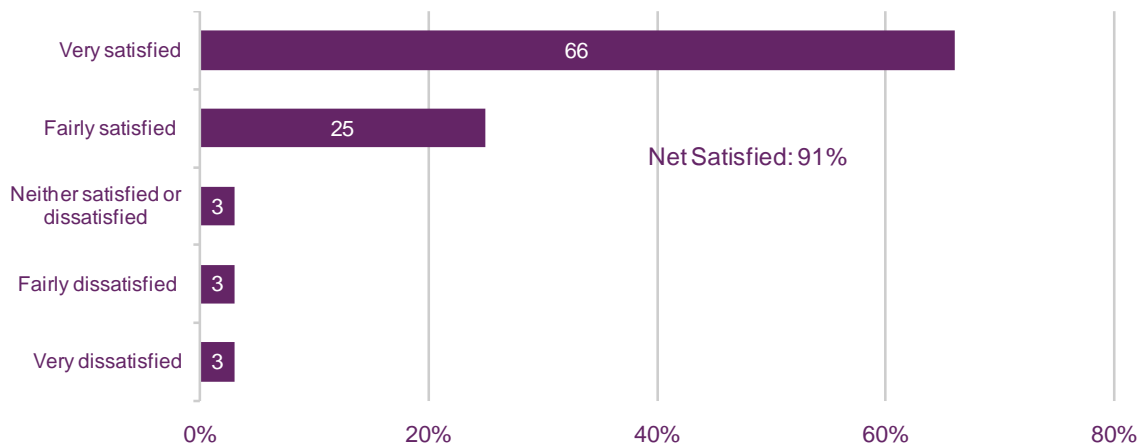
**Figure 1.61 Take-up of e-readers**



Source: Ofcom Tech Tracker 2010, 2011, 2012  
 Base: 2010: 9013, 2011: 3474, 2012: 3772

Ofcom’s research shows that the majority are satisfied with their e-reader, with 91% of users claiming they are satisfied (66% very satisfied and 25% fairly satisfied). Two-thirds thought their e-reader was better than they initially expected.

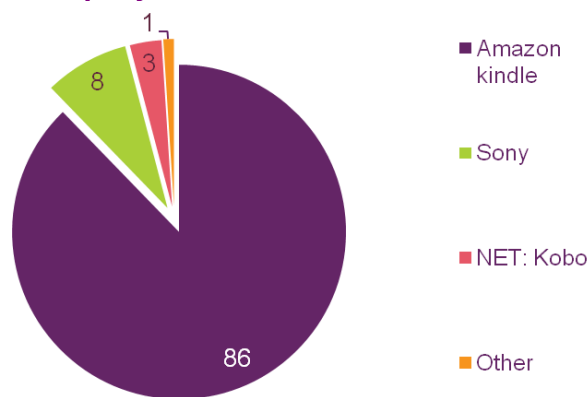
**Figure 1.62 Consumer e-reader satisfaction**



Source: Ofcom research  
 Q.C2 Taking all things into account, how satisfied or dissatisfied are you with your e-reader?  
 Base: All respondents with an e-reader: 500

According to Ofcom’s research, the Amazon Kindle is the most-owned brand overall; 86% of respondents said that they own this brand of e-reader.

**Figure 1.63 Claimed ownership, by e-reader brand**



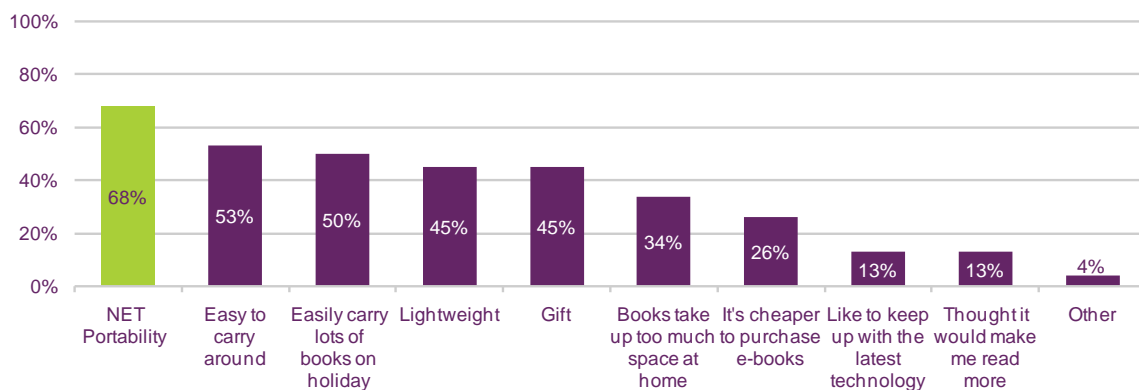
Source: Ofcom research  
 Q.C1 What brand of e-reader is it?  
 Base: All respondents with an e-reader: 500

### 1.6.12 Reasons for purchasing an e-reader

**Space saving and convenience are driving factors when deciding to buy an e-reader.**

Portability is the most-cited reason for purchasing an e-reader (68%). Fifty-three per cent of respondents said they decided to buy one because it was easy to carry around, 50% so they could easily carry lots of books on holiday, and 45% as it was lightweight. Almost half (45%) of the respondents had received the e-reader as a gift. Finally, a third (34%) said they decided to buy an e-reader as “books take up too much space at home” (Figure 1.64).

**Figure 1.64 Reasons why consumers decided to buy an e-reader**

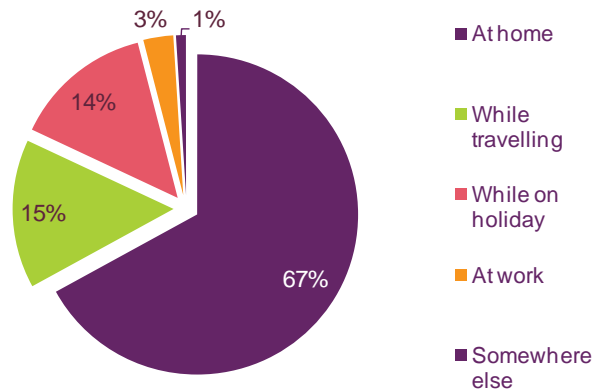


Source: Ofcom research  
 Q.C4 Why did you decide to buy an e-reader?  
 Base: All respondents with an e-reader: 500

**Two-thirds of consumers primarily use their e-reader at home**

Despite the fact that 68% of people cited portability as a reason for deciding to buy an e-reader, two-thirds (67%) primarily use their e-reader at home. A third of consumers mainly use their e-reader either while travelling (15%) or on holiday (14%) (Figure 1.65).

**Figure 1.65 Where do people primarily use their e-reader?**



Source: Ofcom research  
 Q.C8 Where do you primarily use your e-reader?  
 Base: All respondents with an e-reader: 500

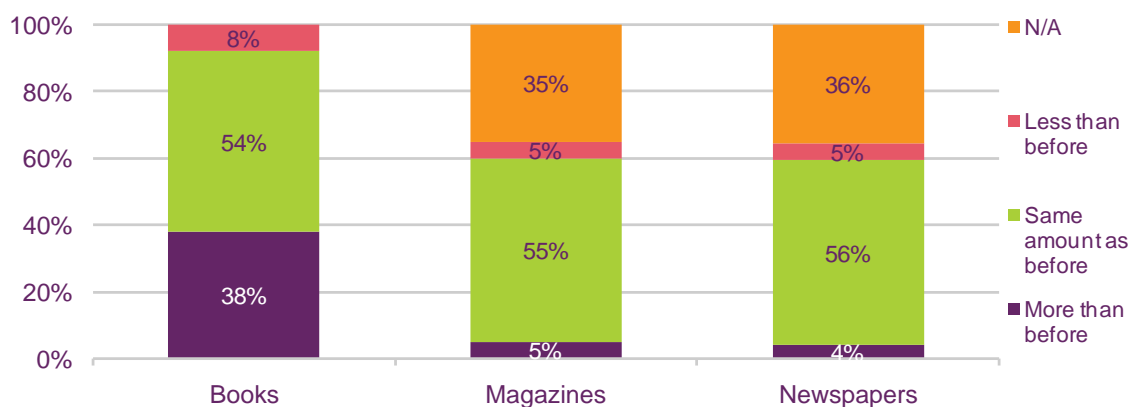
**1.6.13 Impact on behaviour of e-reader owners**

**E-readers have a positive impact on the amount people read**

E-readers are almost universally used for reading books (99%), with 59% claiming to do this most days, or every day. Almost three in ten use their e-reader for reading magazines or newspapers.

E-readers appear to be having a positive effect on reading; 38% of respondents claimed to have read more books than before they owned one (Figure 1.66). Reading of magazines and newspapers appears to be relatively unaffected, neither significantly increasing nor decreasing.

**Figure 1.66 Positive impact on reading books**



Source: Ofcom research  
 Q.C6 Since owning your e-reader have you read books, magazines or newspapers more or less than before?  
 Base: All respondents with an e-reader: 500

For a third of users, e-readers are becoming a key device for their reading; 30% agreed with the statement: “I couldn’t live without my e-reader”. The 35-54 age group is more likely to agree with this statement (38% agreed) than the over-55s (23%). A third (34%) of women agreed with the statement, compared to 25% of men.

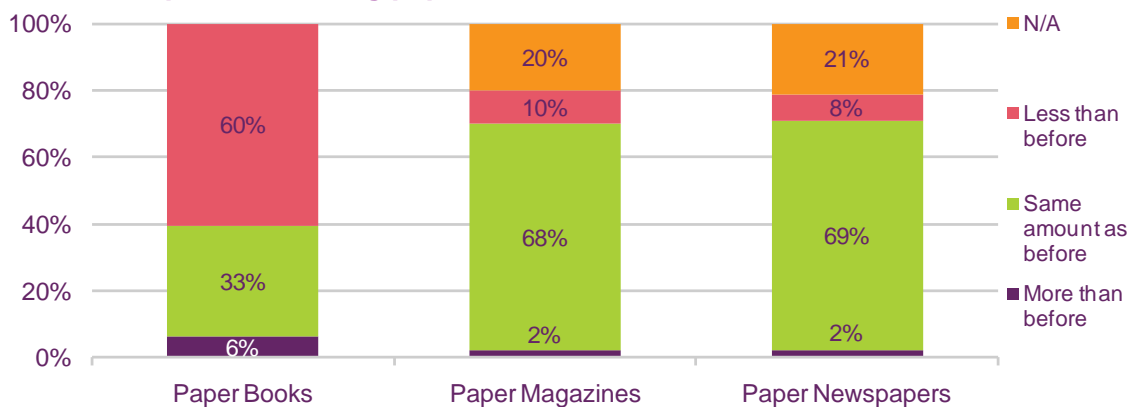


## Six in ten say they are reading less paper-based material since owning an e-reader

Despite having positive implications for individuals' overall reading patterns, 60% of those asked claimed that they are reading fewer paperbacks since owing an e-reader. A third (33%) of e-reader owners are reading the same amount of paper books as before (Figure 1.67).

Overall, 62% claimed to read hard-copy books, magazines or newspapers less since owning an e-reader. This is driven by the decrease in reading paper books (60%). One in ten (10%) also said they had decreased reading paper magazines and 8% said they had decreased reading paper newspapers since owning an e-reader (Figure 1.67).

**Figure 1.67 Impact on reading paper material**



Source: Ofcom research

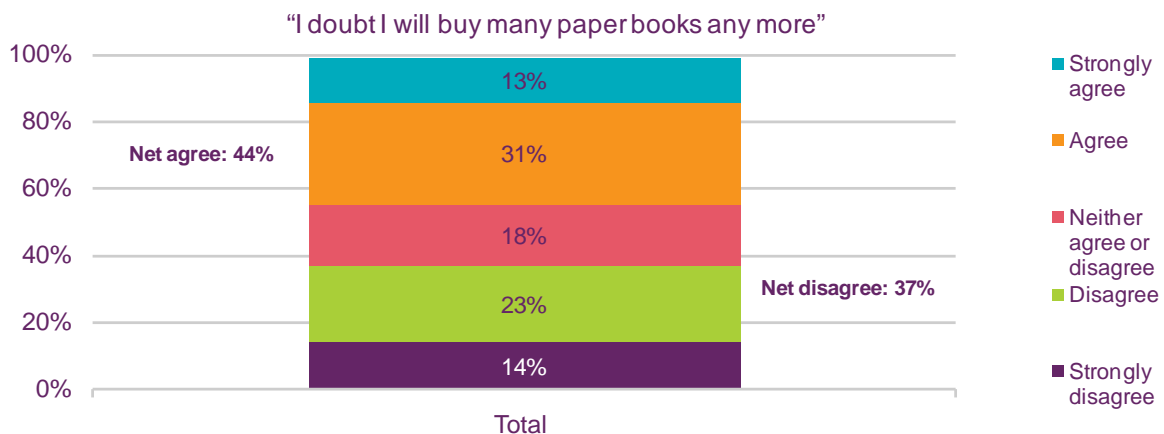
Q.C7 We'd now like you to think specifically about paper based content so since owning your e-reader have you read books, magazines or newspapers more or less than before?

Base: All respondents with an e-reader: 500

## Four in ten say they are likely to stop buying paper books

Forty-four per cent agree: "I doubt I will buy many more paper books" (Figure 1.68). But despite this, the majority of e-reader users do not plan to replace their paperbacks with e-book equivalents. Sixty-two per cent disagreed with the statement: "I will replace most of the paper books I have at home with e-books to save space". But almost a fifth (19%) agreed that they would replace their paperback books with e-books

**Figure 1.68 Replacing paperback books with e-book equivalents**



Source: Ofcom research

Q.C10 To what extent do you agree or disagree with the following statements?

Base: All respondents with an e-reader: 500

# 1.7 The London 2012 Games: media consumption

## 1.7.1 Introduction

The London 2012 Olympic and Paralympic Games is likely to be a significant event in the UK media and communications landscape in 2012. In this section we attempt to set that event in context. We examine past television viewer behaviour for the 2004 and 2008 Olympic Games<sup>37</sup>, outline the options for following the London 2012 Games, and present new research on the media intentions of UK consumers for the London 2012 Games (the Games).<sup>38</sup> This research was conducted in May 2012 among a nationally representative sample of 2192 UK adults aged 16 and over. As it was conducted over two months before the start of the Games, we may find that actual levels of media use and types of devices used will differ from those recorded in this research.

## 1.7.2 Key points

- **Past Olympics have attracted a large number of UK television viewers.** Forty-six million people aged four and over watched coverage of the 2004 Olympics in Athens and 41 million watched the 2008 Olympics in Beijing. Total television viewing during these events was up compared with the same period in the previous years.<sup>39</sup>
- **According to Ofcom's research, conducted in May 2012, 77% of UK adults say they are likely to follow the Games on any medium.** This equates to an estimated 39 million UK adults<sup>40</sup>. Among younger people, 79% of 16-24s say they are likely to follow coverage of the Games. Around a third (35%) of UK adults say they are likely to follow as much of the Games as possible.
- **Around three-quarters (74%) of UK adults say they intend to follow coverage on TV.** This is in line with viewing figures from previous years – according to BARB, 75% of adults followed coverage on television in 2008 and 84% in 2004.<sup>41</sup> Ofcom's research was conducted over two months before the start of the Games so actual viewing may differ from anticipated levels.<sup>42</sup>
- **One in five adults (19%) say that they intend to follow the Games online,** whether through a computer (12%), tablet (6%) or a mobile phone (8%). Sixteen per cent say they will use newspapers and magazines, and 12% say they will listen on the radio.

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<sup>37</sup> Note: 2004 and 2008 BARB TV viewing data is based on Olympic Games only and does not include Paralympic Games data.

<sup>38</sup> The 'London 2012 Olympic and Paralympic Games' are shortened in this document to the 'London 2012 Games' and the 'Games'.

<sup>39</sup> Source: BARB 2004 and 2008.

<sup>40</sup> Research was conducted by Kantar Media using a face to face omnibus methodology amongst a representative sample of 2192 adults aged 16+ in the UK. Fieldwork conducted May 18<sup>th</sup> – May 27<sup>th</sup> 2012. Universe source: Kantar - 50,654,000 (16+ UK).

<sup>41</sup> Source: BARB. Adults 16+. Reach is defined as the percentage of adults who have watched at least 15 consecutive minutes of Olympics programming.

<sup>42</sup> BARB analysis of actual viewing behaviour will be included in Ofcom's ICMR due for publication in Autumn 2012.

- **Online use is anticipated to be higher among younger people, with 32% of 16-24 year olds intending to follow coverage of the Games online**, whether through a computer, tablet or mobile.
- **Most people say that they intend to follow the Games at home. Around one in four people in full-time employment say that they are likely to watch or listen to the Games coverage at work.**
- **UK adults express the greatest interest in the athletics coverage, while the football is of more interest to men, and gymnastics and swimming to women.**
- **Fifty-three per cent of adults agree that “new technology is going to make accessing coverage of the Olympic and/or Paralympic Games easier”.** This rises to 64% of 16-24s.
- **Around a quarter of UK adults (26%), think that “social networking sites like Facebook and Twitter are going to make following the Olympic and/or Paralympic Games easier”,** this rises to 48% of 16-24s.

### 1.7.3 Viewer behaviour: 2004 and 2008<sup>43</sup>

#### The Olympics have a track record of drawing in large numbers of television viewers

In 2004 the Olympics were held in Athens, Greece. In 2008 they were held in Beijing, China. While Athens is just two hours ahead of the UK, Beijing is seven hours ahead. This meant that the action from the 2008 Games was often at a less accessible time for UK viewers and this is reflected in some of the television viewing figures.

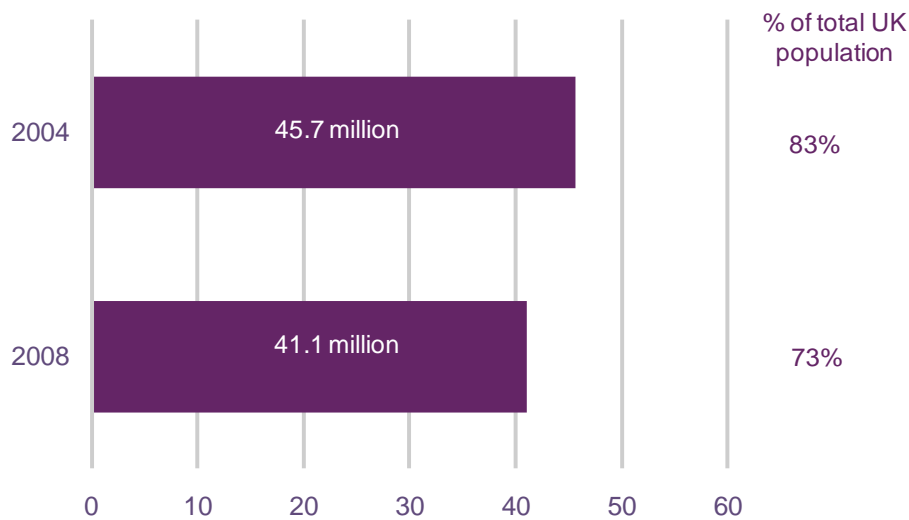
Both the Athens and the Beijing Olympics attracted large numbers of television viewers in the UK: 45.7 million in 2004 and 41.1 million in 2008.<sup>44</sup> This represents 83% of individuals in 2004 and 73% of individuals in 2008 (see Figure 1.69 below).

In 2004, 84% of adults watched television coverage of the Olympics, with the proportion of viewers increasing with age. Reach was slightly lower among children and people aged 16-24, at 74% and 69% respectively. In 2008, 75% of adults watched coverage of the Olympics, with reach rising from 69% of 25-34 year olds to 86% of people aged 65 and over. Among children and 16-24 year olds, on the other hand, reach was lower; at 60% and 57% respectively. The later transmission time of the broadcasts is likely to have affected these figures in 2008.

<sup>43</sup> 2004 and 2008 TV viewing data are based on Olympic Games only and do not include Paralympic Games data

<sup>44</sup> Source: BARB. Viewing is based on 15 consecutive minutes. Base: all individuals 4+

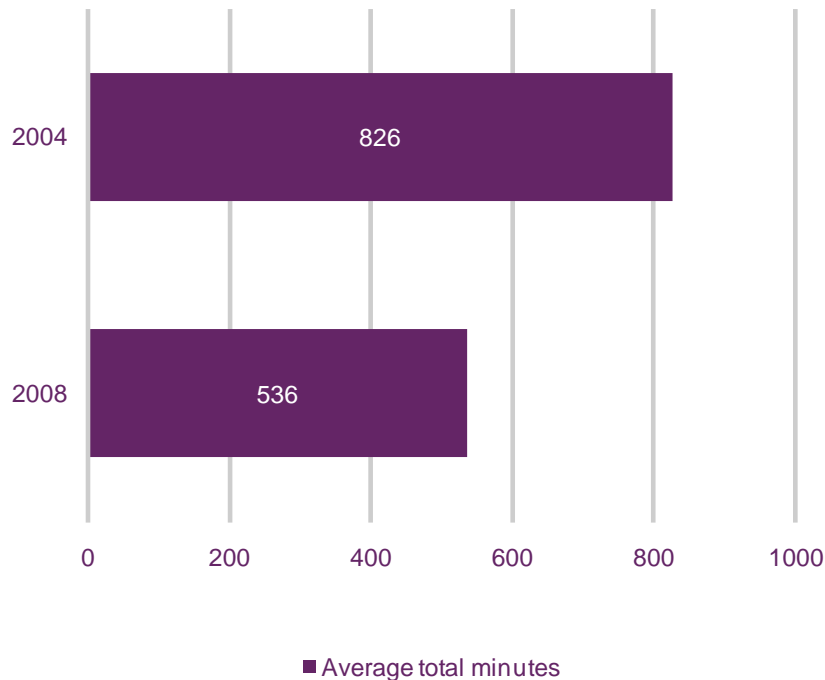
**Figure 1.69 Television reach for the Olympics: 2004 and 2008**



Source: BARB 2004 and 2008, 15+ minutes consecutive reach, all individuals 4+

UK individuals spent an average of 826 minutes watching the Olympics in 2004, or nearly 14 hours. In 2008 this was 536 minutes, nearly 9 hours (see Figure 1.70). The amount of time spent watching increased with age.

**Figure 1.70 Average time spent watching the Olympics: total minutes**



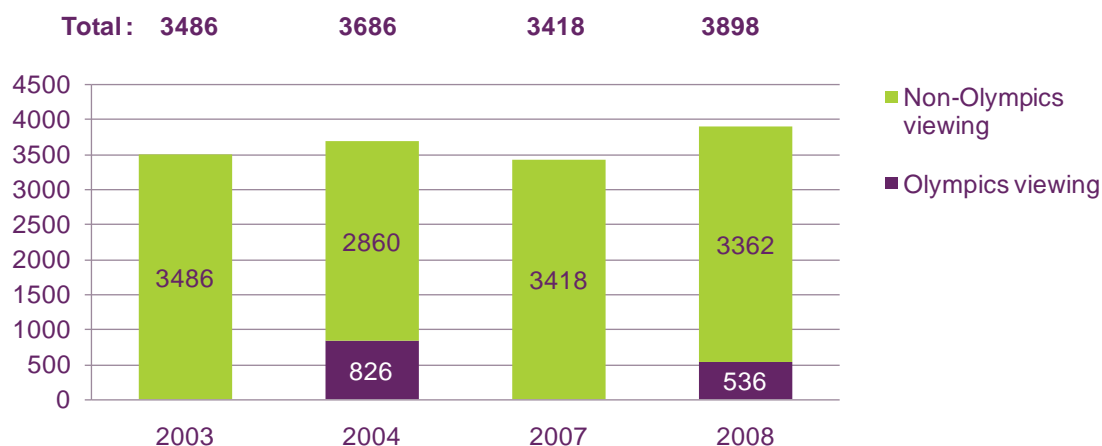
Source: BARB data 2004: 13/08/2004 to 29/08/2004 and 2008: 08/08/2008 to 24/08/2008

Figure 1.71 shows analysis of total TV viewing during the period when the Olympics was taking place, compared to the same time period in the previous year. This shows that in each Olympic year, total TV viewing was higher than in the same period the previous year.

In 2004, people spent 3686 minutes watching TV in August, whereas in 2003 this was 3486 minutes. Similarly in 2008, time spent watching TV in total was 3898 minutes, compared to 3418 minutes in 2007. These results suggest the Olympics boosted total viewing figures. The time spent watching the Olympics represented 22% of total viewing in that time period in 2004 and 14% in 2008.

**Figure 1.71 Total viewing in Olympics and preceding year (total minutes)**

Total minutes viewed



Source: BARB data 2003: 13/08/2003 to 29/08/2003. 2004: 13/08/2004 to 29/08/2004 2007: 08/08/2007 to 24/08/2007 and 2008: 08/08/2008 to 24/08/2008

**Athletics and the Olympics' opening ceremonies were among the five most popular events in 2004 and 2008**

The most-viewed events in 2004 and 2008 were athletics and the Olympics opening and closing ceremonies (see Figure 1.72 below). In 2004 three of the five most popular events were those in which the UK won gold medals: the men's 4x100 relay, the women's 1500m final and the women's 800m final. In 2008 the UK's gold medal in the men's cycling was also among the top five most popular events.

**Figure 1.72 Top five most-viewed half-hour slots, by viewer numbers: 2004 and 2008**



Source: BARB data 2004 and 2008. Average audiences in 000s.

In 2004, Olympic programming featured in the top 50 programmes of the year, at number 38.<sup>45</sup> This was the *Olympics Grandstand* programme on 28 August, with an average audience of 9 million people. This programme included footage of the women's 1500m final in which Kelly Holmes won gold and of Team GB's gold medal in the men's 4x100 relay. The Olympic opening ceremony also featured in the top 50 programmes in 2004, at number 50, with an average audience of 8.7 million viewers. Olympics programming did not feature in the top 50 programmes in 2008.

#### 1.7.4 London 2012: the media landscape

##### Coverage of the London 2012 Olympic and Paralympic Games

Radio and televised coverage of the Games are co-ordinated by the Olympic Broadcasting Services (OBS) - the body created by the International Olympic Committee (IOC) in 2001.

In the case of the UK, the BBC holds domestic television and radio rights for the London 2012 Olympic Games, Eurosport holds the pan-European rights and Channel 4 has the UK television rights for the London 2012 Paralympic Games.<sup>46</sup>

The BBC has announced that it will broadcast live coverage of every London 2012 Olympic sport, from every venue, throughout the day, through a combination of its television channels and up to 24 simultaneous standard or HD live streams available online on PC, mobile, tablet and connected TV. This represents a total of around 2,500 hours of live sport, according to the BBC. The BBC's red button service will provide access to live coverage and other content. There will also be coverage available on BBC Radio. In addition to a BBC mobile application, coverage of and news about the Games will be available on the BBC's Olympics website and on BBC i-Player.<sup>47</sup> Sky, Virgin Media, and Freesat each plan to offer their subscribers access to the BBC's 24 live streams in both standard and high definition.

Channel 4 has committed to over 150 hours of Paralympic events. This is set to be the most extensive UK coverage dedicated to the Paralympic Games.

The BBC and Eurosport intend to broadcast 3D coverage of some of the events in the London 2012 Olympic Games. Sky and Virgin Media intend to make the BBC and Eurosport 3D coverage available to their subscribers.<sup>48</sup>

Coverage of the Games will also be broadcast on 22 big screens at 'Live Sites' across the UK, and the BBC plans to place 'Super Hi Vision' big screens at three UK locations.

##### The diversity in the range of devices and platforms on which coverage will be available reflects wider trends in consumer behaviour

More than three-quarters of UK adults now have home broadband access, compared to under 60% in 2008 (see Figure 1.73 below). Around four in ten (39%) now have a smartphone and 70% of UK adults own an HD or HD-ready TV set, while a small proportion have a smart TV or 3D-enabled television.

<sup>45</sup> Source: BARB. Analysis based on individual transmissions, highest ranking only

<sup>46</sup> Enders note : Olympics win-win for free and pay TV

<sup>47</sup> As above and BBC Online

[http://www.bbc.co.uk/blogs/rogermosey/2012/04/since\\_the\\_start\\_of\\_our.html](http://www.bbc.co.uk/blogs/rogermosey/2012/04/since_the_start_of_our.html),  
<http://www.bbc.co.uk/sport/0/olympics/18071080>,[http://www.bbc.co.uk/blogs/bbcinternet/2012/04/olympics\\_24\\_streams.html](http://www.bbc.co.uk/blogs/bbcinternet/2012/04/olympics_24_streams.html)

<sup>48</sup> As above and, <http://www1.skysports.com/olympics/story/15234/7651672>,  
<http://mediacentre.virginmedia.com/Stories/BBC-and-Eurosport-bring-2012-Olympics-to-Virgin-Media-customers-239c.aspx>

**Figure 1.73 Take-up of communications devices and services**

	2008 % of UK adults	2012 % of UK adults
Broadband at home (excl. mobile)	58	76
PC/laptop/netbook*/tablet*	69	79
Smartphone*	-	39
Smart TV*	-	5
DVR	20	47
HD or HD-ready*	-	70
3D-ready*	-	6
Tablets*	-	11

Source: Ofcom Technology Tracker Q1 2008/ 2012. \*Did not ask about these devices in 2008.

The growth in social networking provides viewers with the opportunity to build their own community around the Games. In 2012 50% of adults used the internet to access social networking sites, 15% read or browsed Twitter and 9% posted a message on Twitter. In 2008 just 20% of people used their internet connections at home to access social networking sites<sup>49</sup>. Ofcom did not collect data on Twitter in 2008 as it was then a relatively new phenomenon.

Use of new devices and services is growing. According to the BBC, around 11.8 million people accessed the BBC Olympics coverage via the red button in 2008, compared with 9 million in 2004, and the BBC Sport website saw a peak of 8.5 million weekly UK unique browsers during the week commencing 17th Aug 2008 – its highest-ever traffic. There were 32 million requests to view audio-visual content during the 2008 Olympics, compared to just 2.4 million for Athens in 2004.<sup>50</sup>

Consumers have greater choice in how they follow the Games in 2012. They will have access to more coverage, they will not have to manage time-zone differences, and they will have more opportunities for enhancing and personalising their Games experience. The big question is what impact this will have on media behaviour.

### 1.7.5 London 2012: research into media intentions

In order to understand which media people are likely to use to follow the Games, Ofcom commissioned some research into people’s attitudes and anticipated media behaviour during the Games.<sup>51</sup> The research was conducted in May 2012, well in advance of the start of the competition, in order to be included in this report. We may find that actual levels of media use, and the devices used, will differ from the results of the research, although the research does indicate what we can expect in terms of media use, and how this will compare with previous years’ media consumption.

#### Around half of all UK adults say they are interested in the London 2012 Games

Our research shows that two months before the Games are due to begin, 48% of adults are very, or quite, interested in the Games. Around a quarter (24%) say they are not at all

<sup>49</sup> Ofcom Technology tracker Q1 2008/ 2012

<sup>50</sup> Source: BBC 2012

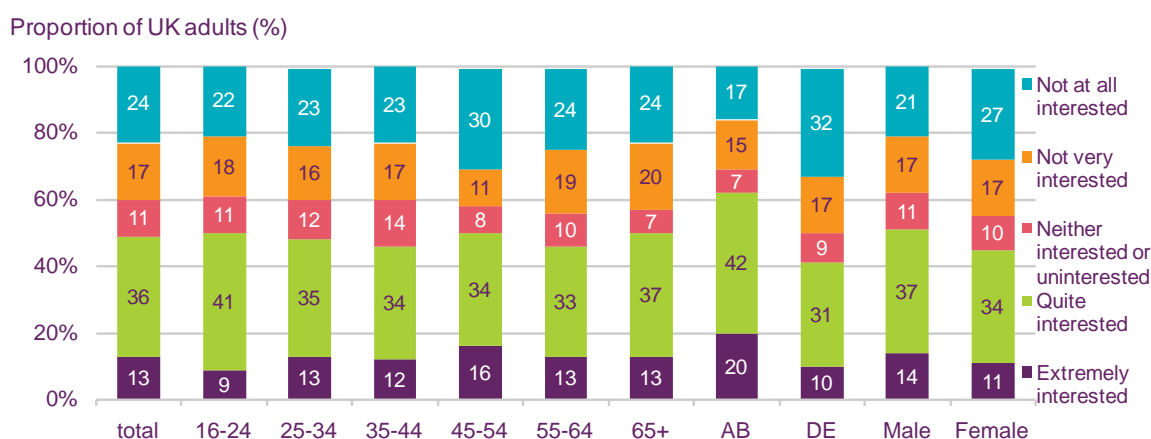
<sup>51</sup> Research was conducted using a face-to-face omnibus methodology among a representative sample of 2192 adults aged 16+ in the UK, including a boost of 100 adults in Northern Ireland. Data were weighted to be representative of the UK. Research was conducted by Kantar Media between 18 and 27 May 2012.



interested. Adults in the AB socio-economic group are more interested in the Games than those in the DE socio-economic group (62% vs. 41%) and men are slightly more interested than women in the Games (51% vs. 45%). However, no single age group stands out as having more or less of an interest in the Games (see Figure 1.74 below).

Interest in the Games is slightly higher in England and Northern Ireland than in Scotland and Wales. Forty-nine per cent of adults in England and 49% in Northern Ireland say they are interested in the Games, compared with 42% in Scotland and 41% in Wales.

**Figure 1.74 Levels of interest in the Games**



Source: Ofcom research

Q4. Thinking about the London 2012 Olympic and/or Paralympic Games happening this July and August, please tell me how interested you are, using the following scale?

Base: All adults in UK:2192

### Seventy-seven per cent of UK adults say they are likely to follow the Games on any medium, with television the most popular

Seventy-seven per cent of UK adults say they are likely to follow the Games on any medium.<sup>52</sup> (See Figure 1.75). Our results indicate that television will be the main medium that people are likely to use to follow coverage of the Games (74% of adults say they intend to follow coverage on TV). This compares with a figure of 75% of adults in 2008 and 84% of adults in 2004, as recorded by BARB.<sup>53</sup>

Nineteen per cent of adults are likely to follow the Games online, whether through a computer, mobile phone or tablet, while 16% of all adults plan to keep up with the Games by

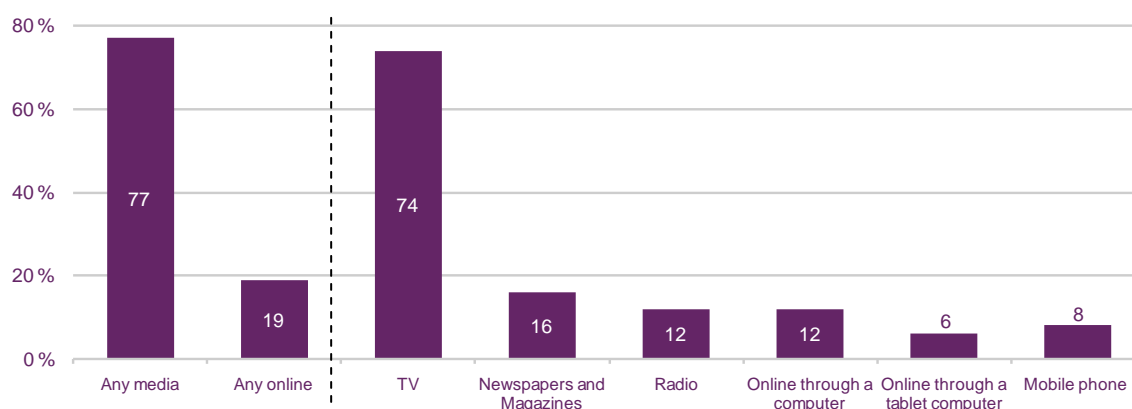
<sup>52</sup> Note: Respondents were initially asked: Q4. "Thinking about the London 2012 Olympic and/or Paralympic Games happening this July and August, please tell me how interested you are, using the following scale" and Q5. "How likely or unlikely are you to follow coverage of the London 2012 Olympic Games through any device or service e.g. TV, radio, online, mobile phone etc". From this 24% of respondents said they were not at all interested in the Games at Q4 (see Figure 1.6) and 18% said they would not follow any coverage at Q5. When the results of these two questions are taken together 17% of respondents were found to have no interest in the Olympics/Paralympics AND also said they would not follow any coverage when initially asked. These respondents, classified as Olympics rejectors, were not asked further questions. Data from further questions on the Games is based on responses from 83% of the sample (n=1803) and the results have then been re-based on all adults (n=2192)

<sup>53</sup> NB: comparisons between this survey and BARB should be made with caution as Ofcom's research was conducted over two months before the start of the Games so actual viewing levels may differ from anticipated levels.



reading newspapers and magazines. Twelve per cent of adults consider it likely that they will listen to the Games coverage on the radio.

**Figure 1.75 Type of media intentions**



Source: Ofcom research

Q8 In which of the following ways do you think you are likely to personally follow coverage of the London 2012 Olympic and Paralympic Games

Base: Question asked of 1803 adults/Olympic non-rejectors and answers re-based on UK adult sample of 2192

**UK adults express the greatest interest in the athletics coverage, while the football is of more interest to men, and gymnastics and swimming to women**

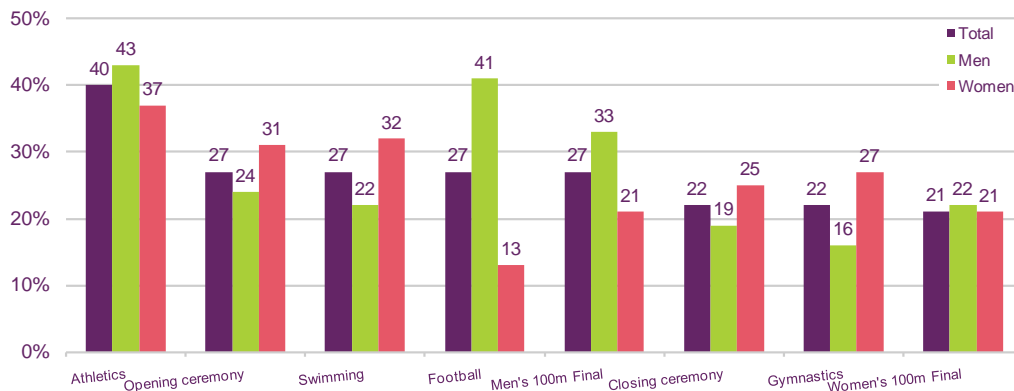
Forty per cent of UK adults said that they are interested in following the Olympics athletics events (See Figure 1.76 below). When asked which event they were *most* interested in, 18% chose the athletics category: making it the most popular Olympic category mentioned overall. In the 2008 Beijing Olympics athletics was popular among UK audiences, with these events achieving some of the highest viewing figures.

The opening ceremony was also in the top five most-viewed events in the Beijing Olympics and 27% of adults in Ofcom’s research said they were interested in following it this year. The same proportion said they were interested in following coverage of Olympic swimming, the 100m sprint men’s final and Olympic football.

Levels of interest in some events differ by gender. Four in ten (41%) men have an interest in following coverage of the Olympic football, compared to just 13% of women (see Figure 1.76 below). And while 27% of women are interested in following coverage of the Olympic gymnastics events, only 16% of men are interested.

Overall, 44% of adults were interested in following any Paralympic event, whether sport or non-sport. Paralympic athletics events are the most popular; 24% of adults are interested in following coverage and these events appeal equally to men and women. Other popular Paralympic events are wheelchair basketball (13% interested in following coverage) and the Paralympic opening and closing ceremonies (12% interested in following coverage).

**Figure 1.76 Interest in following coverage of Olympic events, by gender**



Source: Ofcom research

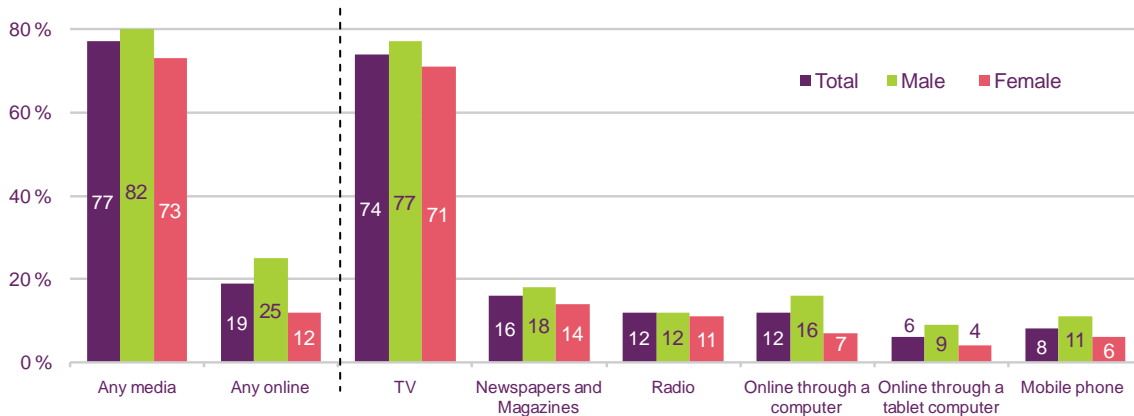
Q.6A1 Which, if any, of these Olympic events are you interested in following coverage of?

Base: Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

**Around one quarter of men expect to follow coverage of the Games online**

Figure 1.77 shows that men are more likely than women to follow the Games online (25% compared to 12%).

**Figure 1.77 Type of media intentions, by gender**



Source: Ofcom research

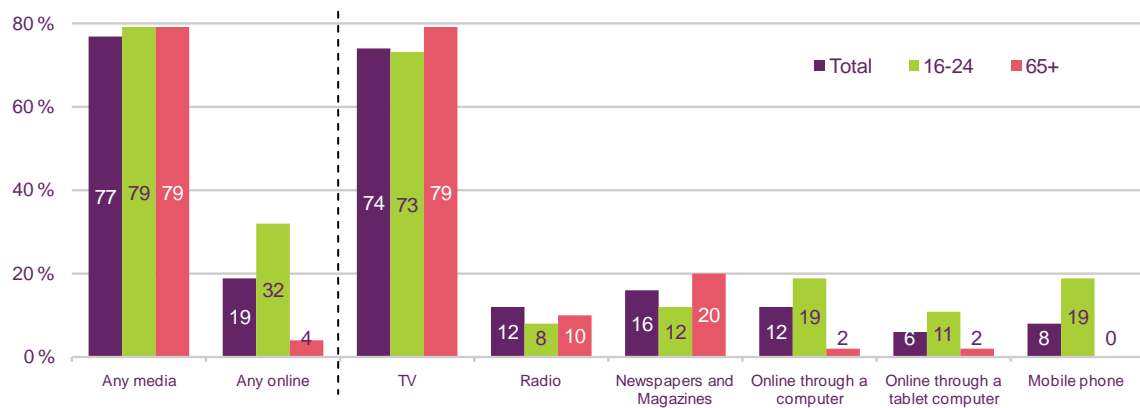
QA8 In which of the following ways do you think you are likely to personally follow coverage of the London 2012 Olympic and Paralympic Games

Base: Questions asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

**Around one third of 16-24 year olds say they are likely to follow coverage of the Games online**

Figure 1.78 below presents the same results, analysed by age. Thirty two per cent of 16-24 year olds expect to follow the Games online, whether through a computer (19%), tablet (11%) or mobile phone (19%). Among 25-34 year olds, 28% say that they are likely to access coverage online, as do 23% of 35-44 year olds. Newspapers and magazines, on the other hand, are more popular with older people; 20% of people aged over 65 say that they are likely to follow coverage through newspapers or magazines.

**Figure 1.78 Type of media intentions, by age**



Source: Ofcom research

QA8 In which of the following ways do you think you are likely to personally follow coverage of the London 2012 Olympic and Paralympic Games

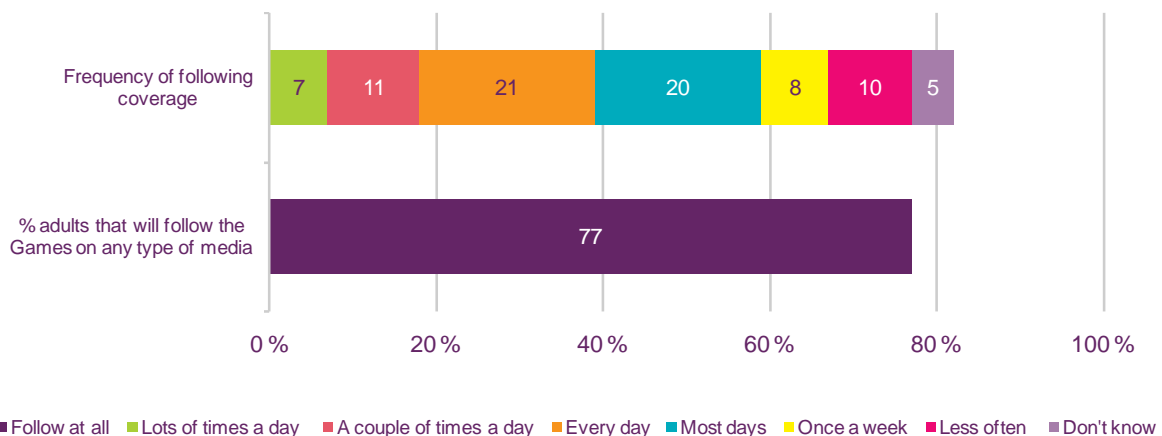
Base: Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

**One in four adults say they intend to follow the Games daily – either on television, radio or online**

When asked *how often* they think that they will access coverage of the Games, 77% of all UK adults expect to follow the Games, either via television, radio or online. This breaks down into 39% who say that they will follow Olympic and/or Paralympic coverage at least once a day and over two-thirds (67%) who will follow it at least once a week. (See Figure 1.79 below).

Men are likely to follow coverage more frequently; 42% say they will follow the Games daily, compared to 35% of women. Adults in the AB socio-economic group are also more likely than those in the DE socio-economic group to follow the Games daily (53% and 30% respectively) and 40% of people in full-time employment will follow coverage daily compared with 32% of people not working (excluding retired people and people in education).

**Figure 1.79 Frequency of following coverage of the Games (via television, radio or online)**



Source: Ofcom research

Q7 Approximately how often do you think you will access coverage of the Olympic or Paralympic Games, either through watching television coverage, listening to radio coverage or accessing coverage online?

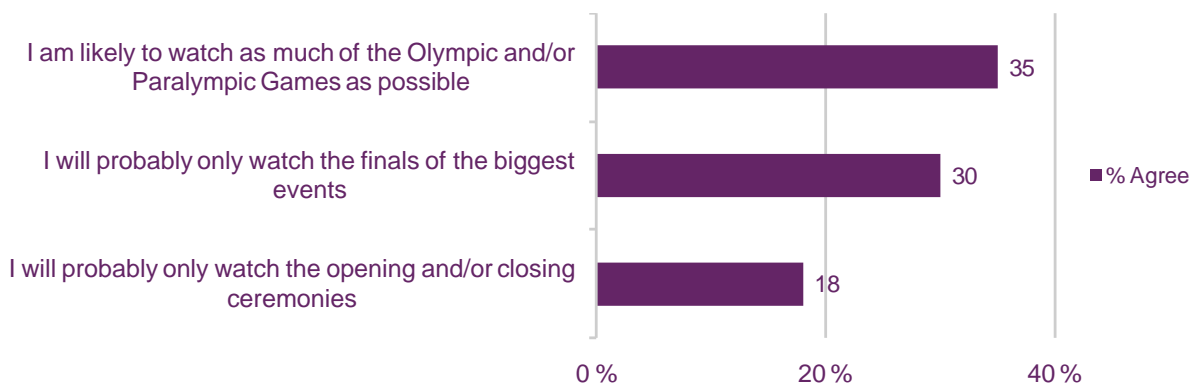
Base: Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192.

### **Around one third of UK adults say they are likely to follow as much of the Games as possible**

Around a third of UK adults (35%) agree: "I am likely to follow as much of the Olympic and/or Paralympic Games as possible" (see Figure 1.80 below). Men are more likely than women to agree with this statement (38% vs. 32%) as are adults in the AB socio-economic group (42%) compared to those in the DE socio-economic group (29%).

However, just under a third of UK adults say they will follow the Games to a lesser degree: 30% agreed that they will "probably only watch the finals of the biggest events". Thirty-nine per cent of 16-24 year olds agreed with this statement, compared to one in four (23%) of 45-54 year olds. Eighteen per cent of all UK adults said that they would probably watch only the opening and/or closing ceremonies; 16-24 year olds were more likely to agree with this statement (22%) than were 45-54 year olds (11%).

**Figure 1.80 Attitudes towards the Games**



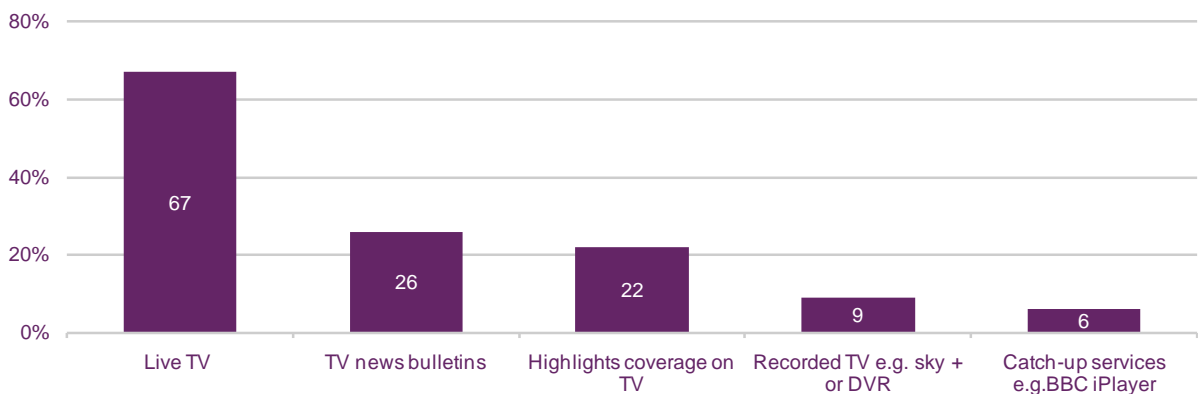
Source: Ofcom research

Q18 I am now going to read out some statements about the coverage of the London 2012 Olympic and Paralympic Games and I would like you to tell me how much you agree or disagree with each. Base: Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

**The Games are likely to be followed primarily as a live television event**

Two-thirds (67%) of adults consider it likely that they will watch live TV coverage “as it happens” (see Figure 1.81 below). Twenty-six per cent of adults think they will access Games coverage through TV news bulletins, 22% said they were likely to watch highlights coverage on TV, 9% think they will watch recorded coverage on their television; and 6% said they were likely to watch the Games using catch-up services.

**Figure 1.81 How people expect to watch coverage on their television set**



Source: Ofcom research

QA8 In which of the following ways do you think you are likely to personally follow coverage of the London 2012 Olympic and Paralympic Games... Base: Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

Thirty one per cent of adults said that they expected to watch more TV over the Games period than they do normally.<sup>54</sup> This supports the findings from the BARB analysis of 2004 and 2008 which found that TV viewing levels increased in Olympics years (see Figure 1.71).

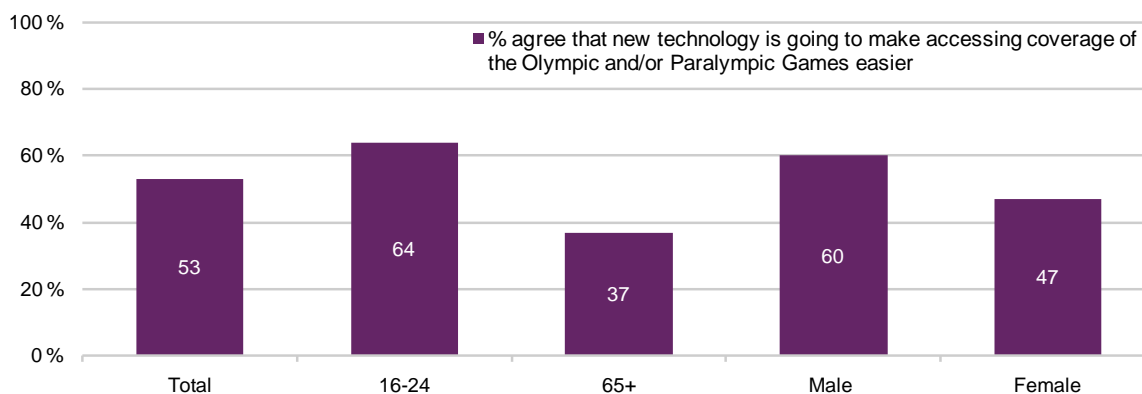
**Most people say they are likely to follow coverage of the Games at home, but one in four people in full-time employment are likely to watch or listen to Games coverage at work**

Seventy-one per cent of adults expect to access coverage of the Games at home. Twenty-three per cent of adults expect to access coverage while out of home, whether at work, travelling or in a public place, out and about or in other people’s homes, and among 16-24 year olds this rises to 35%.<sup>55</sup> When asked how likely it is that they will watch or listen to the Olympic and Paralympic Games at work, in order to watch or listen to more coverage, 12% of adults said it was likely that they are likely to access coverage of the Games whilst at work. Among people in full-time employment, this figure rises to 25%.<sup>56</sup>

**Technology is set to make London 2012 a more mobile and interactive Games**

Technology has advanced significantly since the last Games, four years ago, and this is reflected in consumers’ responses: 53% of adults agreed with the statement “New technology is going to make accessing coverage of the Olympics and/or Paralympic Games easier” (see Figure 1.82 below). The figure rises to almost two-thirds of people aged 16-24 (64%).

**Figure 1.82 New technology will make accessing coverage easier**



Source: Ofcom research

Q18 I am now going to read out some statements about the coverage of the London 2012 Olympic and Paralympic Games and I would like you to tell me how much you agree or disagree with each. Base: Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

<sup>54</sup> Source: Q.11. During the Olympics and/or Paralympics, which of the following do you think you will use more of compared to your normal usage? Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

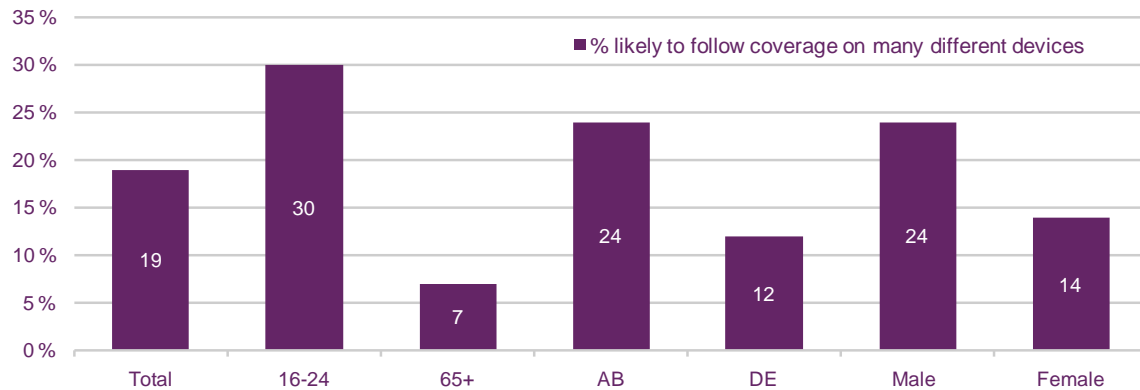
<sup>55</sup> Q.12 Thinking more specifically about how you may access coverage of the Olympic and/or Paralympic Games, at which locations do you think you will access coverage of the games? Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

<sup>56</sup> Q.17 During the Olympics, how likely is it that you will do any of the following in order to watch or listen to more Olympic and/or Paralympic coverage? Watch\Listen to the Olympic and Paralympic Games at work Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

## One fifth of respondents say they are likely to follow coverage on multiple devices

Nineteen per cent of people agreed with the statement: “I am likely to follow the Olympic and/or Paralympic Games on many different devices” (see Figure 1.83 below). The figure rises to 30% of 16-24 year olds and 24% of adults in the AB socio-economic group.

**Figure 1.83 Intention to follow coverage on many different devices**



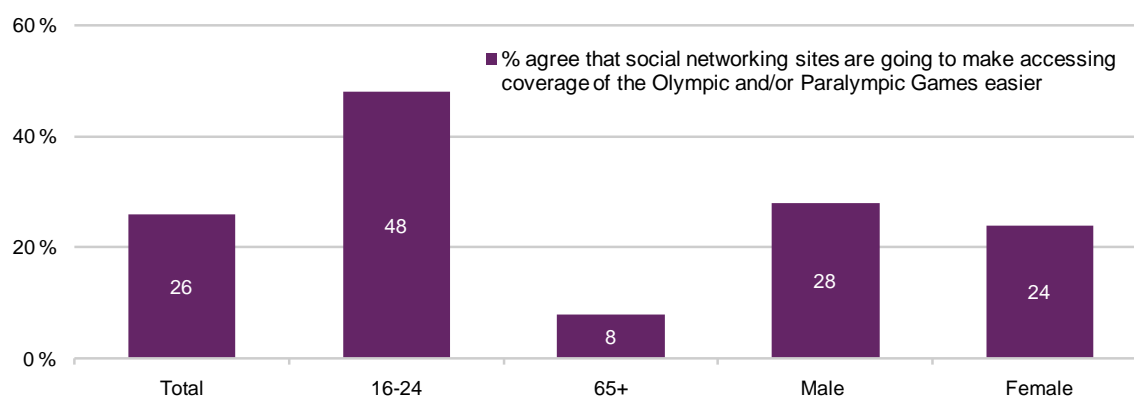
Source: Ofcom research

Q18 I am now going to read out some statements about the coverage of the London 2012 Olympic and Paralympic Games and I would like you to tell me how much you agree or disagree with each. I am likely to follow the Olympic Games and/or Paralympic Games on many different devices Base: Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

## Around half of 16-24s say social networking will make following the Games easier

Social networking has grown substantially since Beijing 2008, and now 50% of UK adults use the internet at home to access social networking sites. Twenty six per cent of adults agreed with the statement: “Social networking sites like Facebook and Twitter are going to make following the Olympic and/or Paralympic Games easier” (see Figure 1.84). This figure rises to about half of 16-24 year olds (48%).

**Figure 1.84 Attitudes to social networking and the Games**



Source: Ofcom research

Q18 I am now going to read out some statements about the coverage of the London 2012 Olympic and Paralympic Games and I would like you to tell me how much you agree or disagree with each - Social networking sites like Facebook and Twitter are going to make following the Olympic and/or Paralympic Games easier

Base: Question asked of 1803 adults/Olympic non-rejectors and answers rebased on UK adult sample of 2192

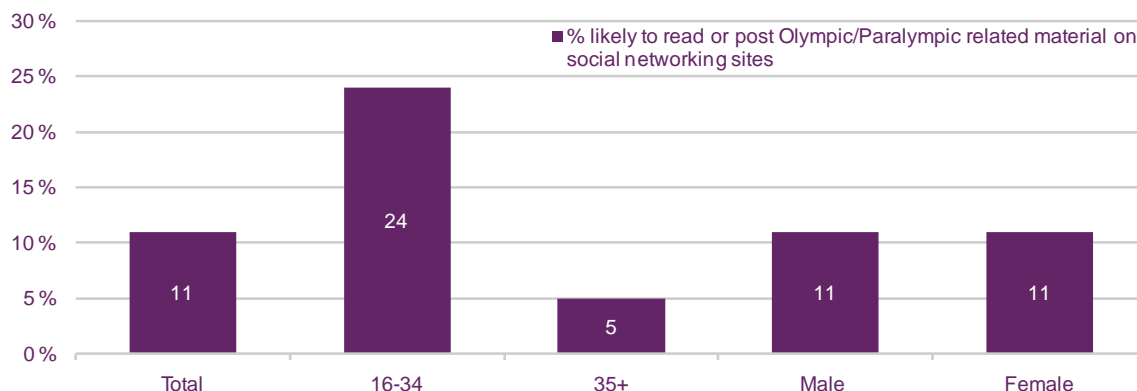
**Around one quarter of 16-34s say they are likely to read or post messages about the Games on social networking sites while watching or listening to coverage of the Games.<sup>57</sup>**

Respondents were asked whether they ever use social networking sites to read or post messages about what they are watching on television. Those who said they did were asked how likely they were to read or post messages about the Games events on sites such as Facebook or Twitter, while they were watching or listening to coverage. Overall, around one in ten adults (11%) and one in four 16-24 year olds (24%) anticipate that they will do this.

<sup>57</sup> 1803 respondents (unweighted) were asked: Q.13 *When watching television, do you ever use social networking sites (e.g. Facebook or Twitter) to read or post related messages (e.g. about the programme or news event)* A further question was asked of the 331 (unweighted) respondents who do: *When watching or listening to coverage of the Olympic and/or Paralympic Games, how likely are you to use social networking sites (e.g. Facebook or Twitter) to read or post related messages (e.g. about the Olympic event)?* Answers were then rebased on the UK adult sample of 2192.



**Figure 1.85 Anticipated social networking about the Games while watching/listening to coverage**



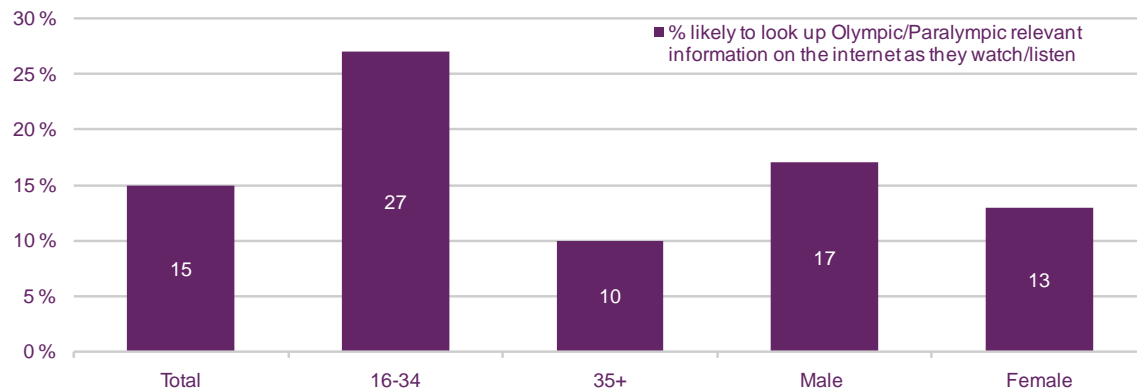
Source: Ofcom research

Q14 When watching or listening to coverage of the Olympic and or Paralympic Games, how likely are you to use social networking (e.g. Facebook or Twitter) sites to read or post related messages (e.g. about the Olympic event)?

Base: Question asked of 331 adults/Olympic non-rejectors who ever use social networking sites (e.g. Facebook or Twitter) when watching television to read or post related messages (e.g. about the programme or news event). Answers re-based on UK adult sample of 2192

Furthermore, 15% of adults said they were likely to use the internet to look up Olympic/Paralympic information *while watching or listening to coverage* (see Figure 1.86). This rises to 27% of 16-34 year olds.<sup>58</sup>

**Figure 1.86 Looking up information online about the Games while watching/listening to coverage**



Source: Ofcom research

Q16 When watching or listening to coverage of the Olympic and or Paralympic Games, how likely are you to use the internet to look up relevant information (e.g. About the Olympic event)

Base: Question asked of 508 adults/Olympic non-rejectors who ever use the internet to look up relevant information (e.g. about the programme). Answers rebased on UK adult sample of 2192

<sup>58</sup> 1803 respondents (unweighted) were asked: Q.15 When watching television, do you ever use the internet to look up relevant information (e.g. about the programme) 508 answered that they do. A further question was asked of these 508 (unweighted) respondents: Q.16 When watching or listening to coverage of the Olympic and/or Paralympic Games, how likely are you to use the internet to look up relevant information (e.g. about the Olympic event)? Answers were then re-based on the UK adult sample of 2192.

# 1.8 The nations' communications markets

## 1.8.1 Introduction and key points

### Introduction

This section sets out a selection of the key facts and figures relating to communications markets across the UK's nations in 2012, comparing and contrasting each nation and highlighting changes that have taken place in the past year.

The section begins by highlighting a range of 'fast facts' for England, Scotland, Wales and Northern Ireland, which draws on Ofcom's annual survey of the nations and regions. It then reports on communications service availability and take-up by nation, and also includes analysis of data on service bundling and public service broadcasting spend and viewing.

### Key points

- **Digital terrestrial television (DTT) coverage is rising as digital switchover takes effect; 97% of homes across the UK can now receive the signal.** Coverage is lowest in Northern Ireland (66%), with digital switchover not due to start there until October 2012.
- **Superfast broadband services, which offer speeds of 'up to' 30Mbit/s or more, were available to an estimated 60% of UK homes by March 2012.** There were significant variations in coverage across the nations, with availability being highest in Northern Ireland (94%), compared to 34% in Wales (where it was lowest).
- **Broadband take-up continues to increase steadily, reaching 76%<sup>59</sup> of UK households in Q1 2012.** The largest year-on-year increase was recorded in Scotland (rising seven percentage points to 68%). In Wales and Northern Ireland broadband take-up stood at 68% and 69% respectively.
- **Smartphone take-up increased year on year, to 39% of UK adults.** Ownership within each nation also increased; to 32% in Scotland, 39% in Wales and 34% in Northern Ireland. Tablet ownership stands at 11% of UK adults, with each nation showing similar take-up levels.
- **The trend of purchasing two or more communications services from the same supplier has continued across the UK this year.** Fifty-seven per cent of UK adults now buy communications services in this way, with the largest increase over the past year being in Northern Ireland (up five percentage points to 51%).
- **Across the UK, nearly 6 in 10 adults (58%) use the postal service regularly to send mail, while 3 in 10 (31%), regularly send parcels or packets.** More consumers in Wales claim to send post regularly than in the other UK nations (69%).
- **TV viewing share among the five main PSBs averaged 54% in 2011 across the UK, with similar levels of viewing to the PSBs in each nation, at around 54%.**
- **BBC radio services attracted a 55% listening share in 2011, ranging from 61% in Wales to 45% in Scotland and 46% in Northern Ireland, where commercial local/nations' radio is popular.**

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<sup>59</sup> Includes fixed and mobile broadband via a USB stick or dongle, or built-in connectivity in a laptop, netbook or tablet PC with a data card. Excludes internet access via a mobile phone. Total internet take-up including access on a mobile phone in Q1 2012 was 80%.

## 1.8.2 UK communications market: fast facts

Figure 1.87 UK communication markets: fast facts

	UK	England	Scotland	Wales	Northern Ireland	UK urban	UK Rural
Digital TV take-up among TV homes	98 ↑+2	97	99	99	91 <sup>-</sup>	97 ↑+2	98 ↑+4
Broadband take-up	76	78	68 <sup>-</sup> ↑+7	68 <sup>-</sup>	69 <sup>-</sup>	76	77
Mobile broadband	13	13	12	16	7 <sup>-</sup>	13	10
Mobile phone take-up	92	93	85 <sup>-</sup>	92 ↑+5	93	92	92
Use mobile to access internet	39 ↑+7	40 ↑+6	31 <sup>-</sup> ↑+10	39 ↑+14	35 ↑+6	39 ↑+5	35 ↑+12
Smartphone take-up	39 ↑+12	40 ↑+11	32 <sup>-</sup> ↑+14	39 ↑+14	34 ↑+13	39 ↑+12	37 ↑+10
Fixed landline take-up	84	85	82	80	84	83	91 <sup>+</sup>
Households taking bundles	57 ↑+4	58 ↑+4	47 <sup>-</sup>	47 <sup>-</sup>	51 <sup>-</sup> ↑+5	57 ↑+3	56 ↑+11
DAB ownership amongst radio listeners <sup>1</sup>	38	40	29 <sup>-</sup>	29 <sup>-</sup>	22 <sup>-</sup>	38	41
Smart TV ownership among TV homes	5	5	4	3	4	5	4
Tablet computer take-up	11 ↑+9	11 ↑+9	11 ↑+10	8 ↑+6	9 ↑+7	11 ↑+9	11 ↑+9
E-reader take-up (personal use)	10 ↑+7	10 ↑+7	8 ↑+6	13 ↑+10	8 ↑+5	11 ↑+8	15 <sup>+</sup> ↑+12
Fixed telephony availability	100	100	100	100	100		
Fixed broadband availability <sup>2</sup>	99.98	100.00	99.87	100.00	100.00		
LLU availability <sup>3</sup>	92	93	84	88	79		
Cable broadband availability <sup>4</sup>	44	47	35	23	29		
FTTC broadband availability <sup>5</sup>	31	33	10	17	87		
Superfast broadband availability <sup>6</sup>	60	62	42	34	94		
2G mobile availability <sup>7</sup>	99.7	99.8	99.2	99.2	98.7		
3G mobile availability <sup>8</sup>	99.1	99.7	97.0	97.6	88.3		
DTT availability <sup>9</sup>	97	98	99	98	66		
TV consumption (hours per day) <sup>10</sup>	4.0	3.6-4.5	4.5	4.4	4.2		
Radio consumption (hours per day)	3.2	3.2	3.1	3.3	3.2		

Key: <sup>+</sup> Figure is significantly higher than UK average; <sup>-</sup> Figure is significantly lower than UK average;  
 ↑+xx Figures have risen significantly by xx percentage points since 2011

Source: Ofcom research Q1 2012, BARB, RAJAR, Industry data. Base: All adults 16+ aged (n = 3772 UK, 513 Wales, 2251 England, 500 Scotland, 508 Northern Ireland, 2731 UK urban, 1041 UK rural)

Notes: BARB data based on all individuals (aged 4+). PSBs = BBC One, BBC Two, ITV1, C4, Five. RAJAR data based on all adults (aged 16+). PSBs = all BBC radio. National data based on TSA's of BBC Radio stations of respective nations.

1. Elsewhere in this report UK-level DAB take-up data is taken from RAJAR
2. Proportion of premises able to receive ADSL broadband services based on data reported by BT
3. Proportion of households connected to an LLU-enabled exchange
4. Proportion of households passed by Virgin Media's broadband-enabled network; excludes homes where Virgin Media is not also able to provide fixed voice and pay-TV cable services.
5. Ofcom estimate of the proportion of households able to receive FTTC services
6. Ofcom estimate of the proportion of households able to receive superfast broadband services
7. Proportion of premises that have outdoor 2G mobile coverage from at least one operator
8. Proportion of premises that have outdoor 3G mobile coverage from at least one operator.
9. Availability of 17 services. Ofcom estimates.
10. It is not possible to provide a single figure for 'England' so a range is displayed reflecting the regions with the highest and lowest figures respectively. Availability of communications platforms and services

### **Availability of communications services varies across the UK's nations**

Figure 1.88 shows the proportion of the UK population able to receive various communications services, split by UK nation. The coverage of most services has not changed substantially in the past year, although digital terrestrial television (DTT) and fibre-to-the-cabinet (FTTC) broadband were both notable exceptions.

For DTT services this was because the switching-off of the analogue TV signal in parts of England has enabled improvements to DTT reception, while UK household FTTC broadband availability increased from 16% of homes to 31% in the year to March 2012 as a result of BT's ongoing fibre network roll-out.

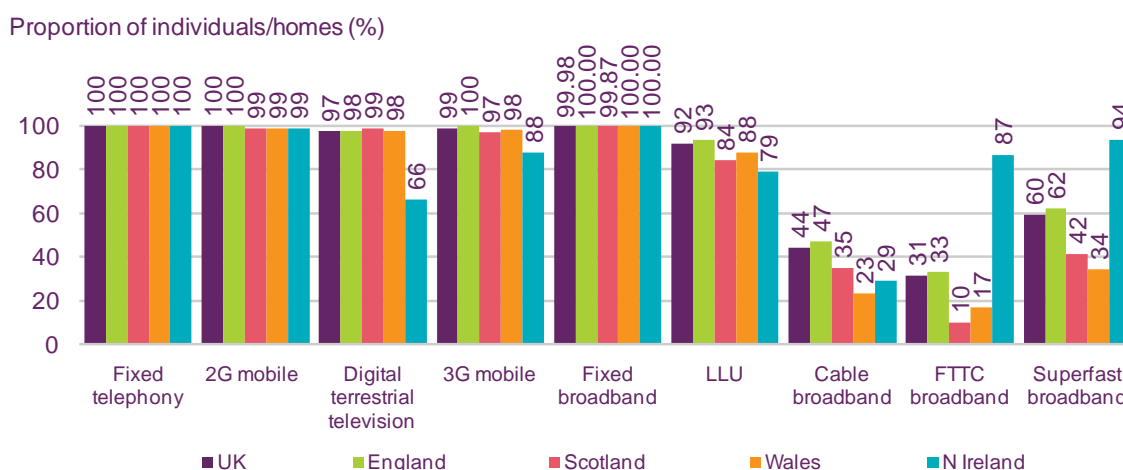
- Fixed-line voice telephony is available to 100% of homes in the UK as a result of the universal service obligation (USO) under which all households in the UK have access to a fixed line at a standard charge.
- Almost all UK homes (over 99.98%) are connected to a BT local exchange that has been upgraded to offer ADSL broadband, which is delivered over a standard fixed telephony line, at the end of 2011. However, not all premises in an ADSL exchange area can receive broadband services, or they may only be able to do so at low speeds, due to factors such as the distance from the local exchange, poor network quality and local technicalities.
- Consumers living in exchange areas that have been upgraded to offer local loop unbundling (LLU) typically have a greater choice of fixed-line telephony and broadband providers, and access to lower-cost bundled services, and by the end of 2011 92% of UK homes were connected to an LLU-enabled exchange, up by three percentage points year on year. England had the highest proportion of homes that were connected to an unbundled exchange (93% of the total), while this proportion was lowest in Northern Ireland, at 79%.
- Cable broadband services were available to 44% of UK homes in May 2012. Availability of cable broadband is concentrated in areas of high population density, and across the UK nations it ranged from 47% of homes in England to 23% in Wales. In March 2012 Virgin Media started an 18-month programme to double the speed of most of its broadband connections.

- BT's fibre-to-the-cabinet deployment gained pace in 2011, and by March 2012 31% of UK homes were able to receive FTTC services using BT's fibre network, up from 16% a year previously. BT aims to make its fibre broadband services available to two-thirds of UK premises, and in October 2011 it announced that this goal would be attained by the end of 2014, a year sooner than originally planned.<sup>60</sup> In April 2012 BT upgraded its network to offer 'up to' 80Mbit/s FTTC services, offering speeds twice as fast as those available previously. Northern Ireland had the highest household availability of FTTC services at the end of March 2012, at 87%, largely as a result of a Department of Enterprise, Trade and Investment project to promote the deployment of fibre broadband services.
- 99.7% of UK premises had outdoor 2G mobile coverage from at least one operator in May 2012, leaving 0.3% of premises (homes and offices) with no outdoor coverage. Indoor coverage figures can be expected to be lower, because mobile signals weaken as they pass through building walls. Levels of coverage are influenced by population densities and by topography. As a result, 99.8% of England's premises were covered by 2G mobile from at least one operator, in contrast to 99.2% in Wales, 99.2% in Scotland and 98.7% in Northern Ireland. The comparable figures for 3G coverage were lower: 99.1% of UK premises; 99.7% in England, 97.0% in Scotland, 97.6% in Wales and 88.3% in Northern Ireland had 3G mobile coverage outside the premise from at least one operator.
- DTT services were available to 97% of the UK population by July 2012, up from 85% a year previously. The increase was as a result of the ongoing digital switchover in England, where the proportion of people able to receive DTT services increased from 85% to 98% over the period.

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<sup>60</sup> <http://www.btplc.com/news/articles/showarticle.cfm?articleid=%7Bd228f2b4-25fc-4095-8ec4-bd17b903cc3b%7D>

**Figure 1.88 Communications infrastructure availability across the UK's nations**



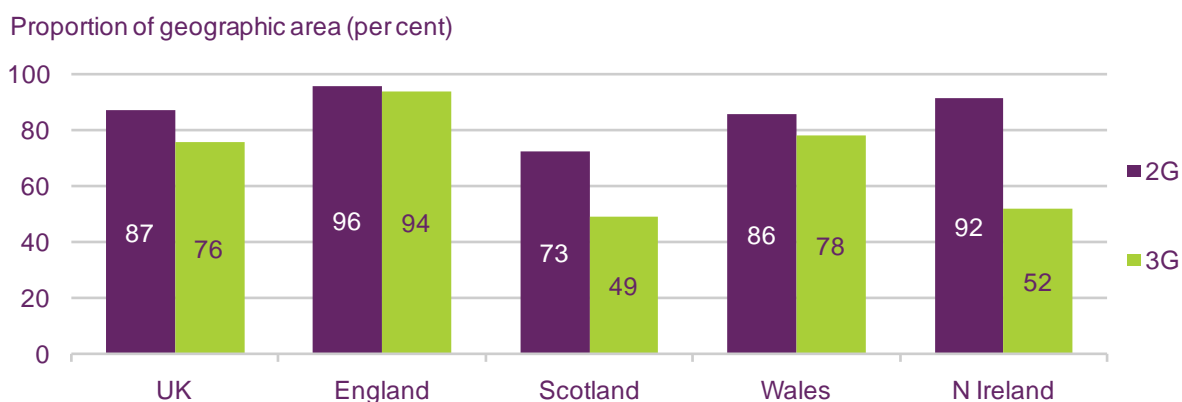
Sources: Ofcom

1. Proportion of premises that have outdoor 2G mobile coverage from at least one operator.
2. Proportion of premises that have outdoor 3G mobile coverage from at least one operator.
3. Ofcom estimate of the proportion of households connected to an ADSL-enabled BT local exchange.
4. Ofcom estimate of the proportion of households connected to an LLU-enabled BT local exchange.
5. Ofcom estimate of the proportion of households passed by Virgin Media's cable broadband network; excludes homes where Virgin Media is not also able to provide fixed voice and pay-TV cable services.
6. Ofcom estimate of the proportion of households able to receive FTTC services
7. Ofcom estimate of the proportion of households able to receive superfast broadband services

### 1.8.3 Geographical coverage of 2G and 3G mobile services

Figure 1.89 illustrates the geographic coverage, as opposed to premises-based coverage, of 2G and 3G mobile services. The parts of the country where there is the most coverage tend to coincide with areas of high population density. Geographic coverage tends to be lower than premises-based coverage, because mobile operators tend to deploy services specifically to cover centres of population. The lower network coverage in Scotland, Wales and Northern Ireland, reflects these nations' large areas of low population density, and the presence of hilly or mountainous terrain, which limits the range of cellular signals.

**Figure 1.89 Geographical coverage of 2G and 3G mobile services**



Source: Ofcom based on mobile operator data, May 2012. Figures give the percentage of geographic area covered by at least one operator.

Note: This data is based on calculating coverage in 200 metre square pixels that cover the UK; this improved methodology is different to that used in the 2011 Communications Market Report, and as such the two sets of figures are not comparable.

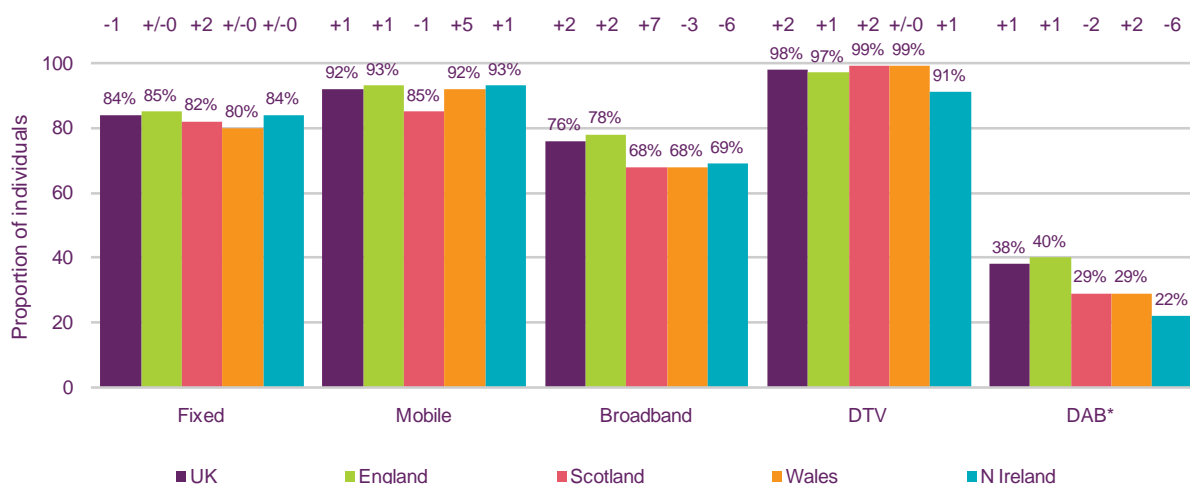
## 1.8.4 Take-up of communications platforms and services across the UK

### Modest increases in take-up of established communications services across the UK nations

Take-up of the most established communications services remained stable or increased modestly in the past year. Digital television and mobile telephony services are approaching universal ownership, so year-on-year increases in take-up have slowed.

- Ownership of fixed-line telephones has remained stable across the UK in the past year, at 84%. Take up of fixed-line telephones is lowest in Wales (80%).
- Broadband take-up (whether fixed or mobile) has continued steadily to increase, with a two percentage point rise in the past year, and 76% of households are now connected. The largest percentage point increase was seen in Scotland (+7). In Wales and Northern Ireland the apparent decreases in broadband take-up are within the survey's error margins, so should not be considered significant.
- Over nine in ten UK adults (92%) own a mobile phone, with take-up remaining stable during the past year. There is modest variation between nations, with highest take-up (93%) in England and Northern Ireland and the lowest take-up in Scotland (85%).
- Digital television take-up has increased to 98% of households with a TV. Wales and Scotland (the two UK nations to have completed switchover to digital) had the highest take-up, at 99%. Take-up in Northern Ireland at the start of 2012 (fieldwork took place in January and February) was 91%, with digital switchover scheduled there for October 2012.

**Figure 1.90 Communications service adoption across the nations of the UK: 2012**



Source: Ofcom research, Q1 2012

Fixed-line base: All adults aged 16+ (n = 3772 UK, 2251 England, 500 Scotland, 513 Wales, 508 Northern Ireland)

DTV base: Adults aged 16+ with a TV in the household (n = 3713 UK, 2214 England, 489 Scotland, 508 Wales, 502 Northern Ireland)

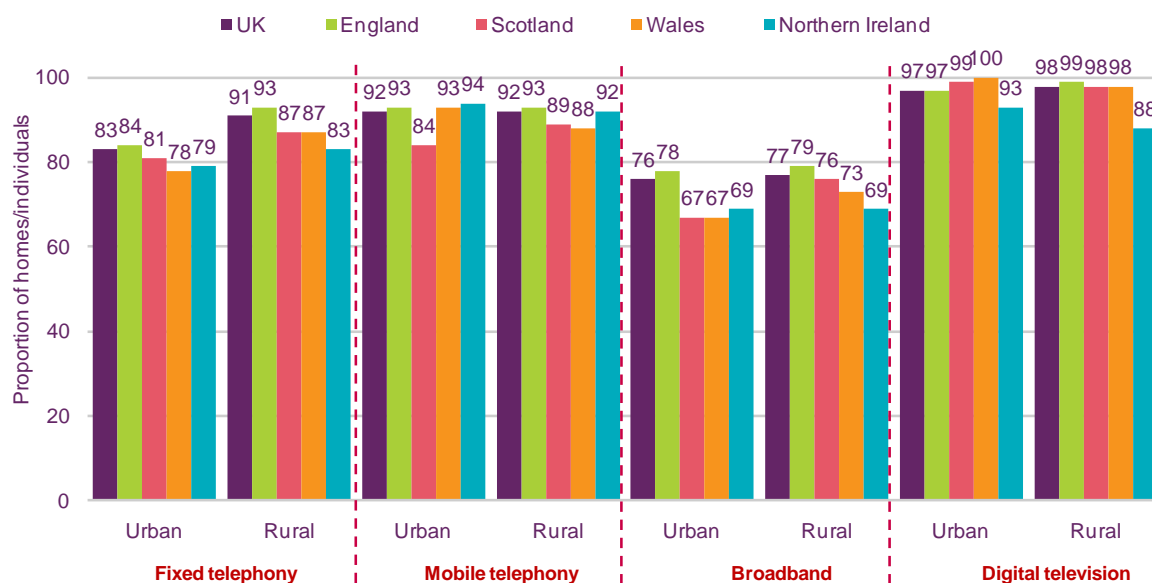
DAB base: Adults aged 16+ who listen to radio. \*NB data in 2011 is based on all with any active radio sets in the household who listen to radio (n = 2963 UK, 1790 England, 364 Scotland, 405 Wales, 404 Northern Ireland). Elsewhere in this report UK-level DAB take-up data is taken from RAJAR.

See published tables for questions:

[www.ofcom.org.uk/static/marketresearch/statistics/main\\_set.pdf](http://www.ofcom.org.uk/static/marketresearch/statistics/main_set.pdf)

Figure 1.91 sets out patterns of communications technology / service adoption, by nation and by location (urban/rural). Broadly speaking, take-up of communications services are at similar levels in urban and rural locations. Fixed-line services are the only deviation from this pattern, where take-up is higher – sometimes substantially – in rural locations. That said, there are some variations in take-up by location: broadband take-up among homes in rural areas is higher than in urban areas in Scotland and Wales, which is likely to relate to higher-income households in rural areas.

**Figure 1.91 Adoption of communications technology / services in urban and rural locations**



Source: Ofcom research, Quarter 1 2012

Fixed telephony, mobile telephony, broadband base: All adults aged 16+ (n = 3772 UK, 2251 England, 500 Scotland, 513 Wales, 508 Northern Ireland)

DTV base: Adults aged 16+ with a TV in the household (n= 3713 UK, 2214 England, 489 Scotland, 508 Wales, 502 Northern Ireland)

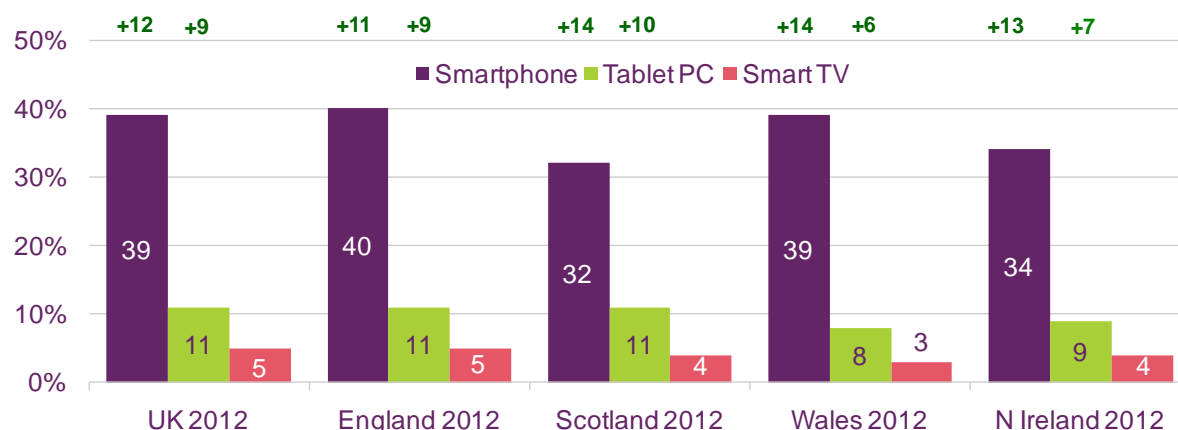
### Adoption of new technologies increasing rapidly

One in four (39%) UK adults now own a smartphone, an increase of 12 percentage points over the past year. Smartphone ownership varies across the UK nations with the highest levels of take-up being found among consumers in England (40%) and Wales (39%). Smartphone ownership is higher among ABC1 social groups and those aged 16-34. Similarly, household take-up of tablet PCs has rapidly increased since Q1 2011, with 11% take-up across the UK, up from 2% the previous year. Smart TVs are in 5% of UK households. We discuss tablet computer ownership in section 1.6, smart TVs in section 2.1.2, and smartphones in section 4.1.2.



## Figure 1.92 Ownership of smartphones, tablets and smart TVs

Figure above bar shows % point change in take-up from Q1 2011



Source: Ofcom research, Q1 2012

Base: All adults aged 16+ (n = 3772 UK, 2251 England, 500 Scotland, 513 Wales, 508 Northern Ireland)

Smartphone take-up relates to personal use, tablet and smart TV take-up relates to household use

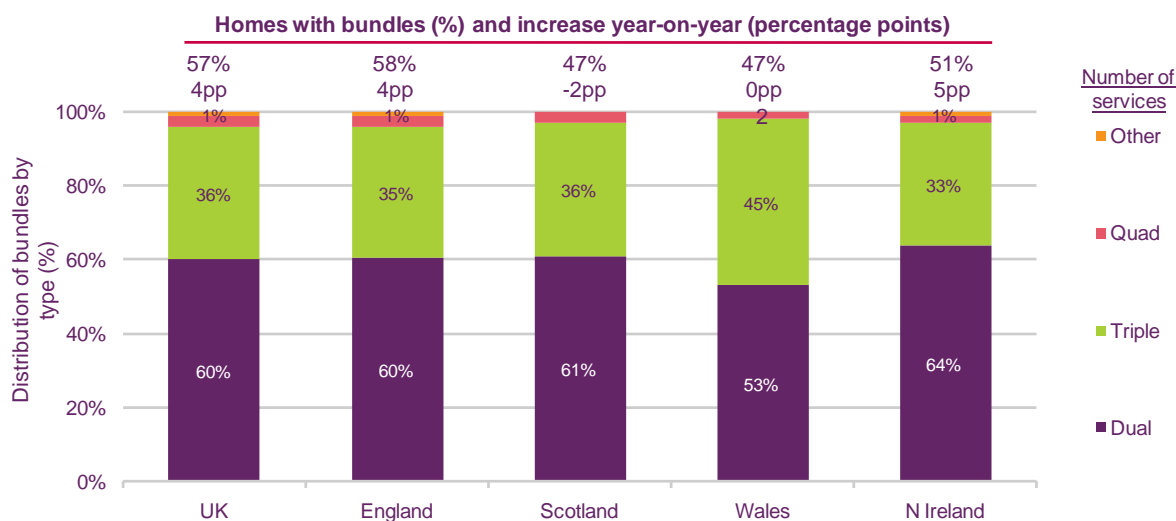
### 1.8.5 Consumer take-up of bundled services in the UK

#### Approaching six in ten households purchasing communications services in a bundle

Purchasing communications services in bundles continues to increase in popularity across the UK. Fifty-seven per cent of UK homes now purchase communications services in this way, a four percentage point increase year on year, following a three percentage point increase from 2010-2011. The most popular type of bundle is a 'dual' package of two services (typically fixed-line telephony and broadband).

Take-up of bundled services is highest in England (58%), but is becoming an increasingly popular way to purchase services in Northern Ireland, where there has been a year-on-year increase of five percentage points. The proportion of homes with bundled services in Scotland and Wales has remained stable, at 47%.

**Figure 1.93 Take-up of bundles, by nation**



Source: Ofcom research, Q1 2012

Base: All adults aged 16+ with a package of services regardless of whether or not these include a discount (n = 2007 UK, 1276 England, 254 Scotland, 223 Wales, 254 Northern Ireland)

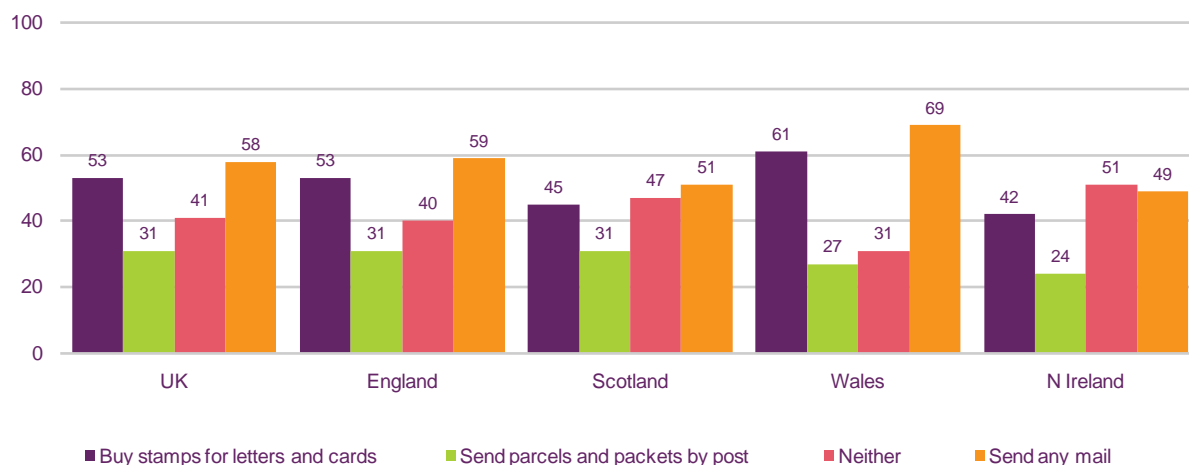
Note: Remaining percentages are Don't know responses

### 1.8.6 Use of postal services

#### Seven in ten consumers in Wales regularly send mail

Across the UK, nearly six in ten adults (58%) use the postal service regularly to send mail, while three in ten (31%), regularly send parcels or packets by post. More consumers in Wales claim to send post regularly, compared to all other UK nations (69%). In Scotland and Northern Ireland, fewer consumers (51% and 49% respectively) claim to send items of post regularly than the UK average. As would be expected, fewer consumers in these nations claim to regularly buy stamps for letters and cards (45% in Scotland and 42% in Northern Ireland) compared to 53% across the UK.

**Figure 1.94 Regular use of postage stamps and postal services products, by nation**



Source: Ofcom research, 2011

Base: All adults aged 16+ (n=2124 UK, 1726 England, 182 Scotland, 99 Wales, 117 Northern Ireland)

Q: Do you or anyone in your household regularly do any of the following...

## 1.8.7 Spending by public service broadcasters on television and radio content across the UK's nations

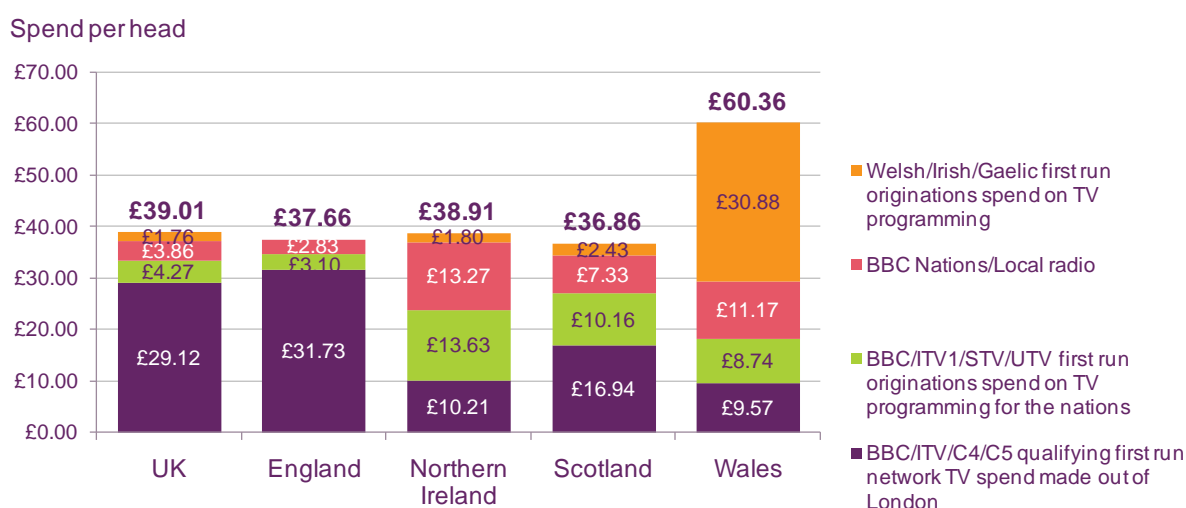
Figure 1.95 illustrates patterns of spend on broadcast output. It adjusts for population size by expressing spend on a per-head basis. The chart illustrates four types of expenditure:

- the value of qualifying first-run 'made out of London' network TV spending: TV programmes that are produced in one nation/English macro region, and then broadcast to all UK viewers;
- spend by the BBC and ITV/STV/UTV on first-run originated TV programmes specifically for viewers in each nation or region;
- TV programming produced in Welsh (and broadcast on S4C), Gaelic (BBC ALBA) and the Irish language; and
- BBC spend on radio services for listeners in the nations (BBC Radio Foyle/Ulster, BBC Radio Wales/Cymru, BBC Radio Scotland/nan Gàidheal and BBC local radio in England).

Total spend per head across the UK based on the four types of expenditure outlined above stood at £39.01 in 2011; networked television productions accounted for three-quarters (75%) of that total, and nations/regional television output for a further 11%.

Spending for each of the four nations differed in terms of level and composition. Spend per head in Wales was the highest among the four nations, reaching £60.36 in 2011. In England, spend per head stood at £37.66. In Scotland spend per head stood at £36.86 where made-out-of-London networked programmes and productions for viewers in Scotland both made substantial contributions to that total. In Northern Ireland spend per head was £38.91; with television programming for Northern Ireland viewers, and radio output, making up a large proportion of the total.

**Figure 1.95 Spend per head by PSBs: 2011**



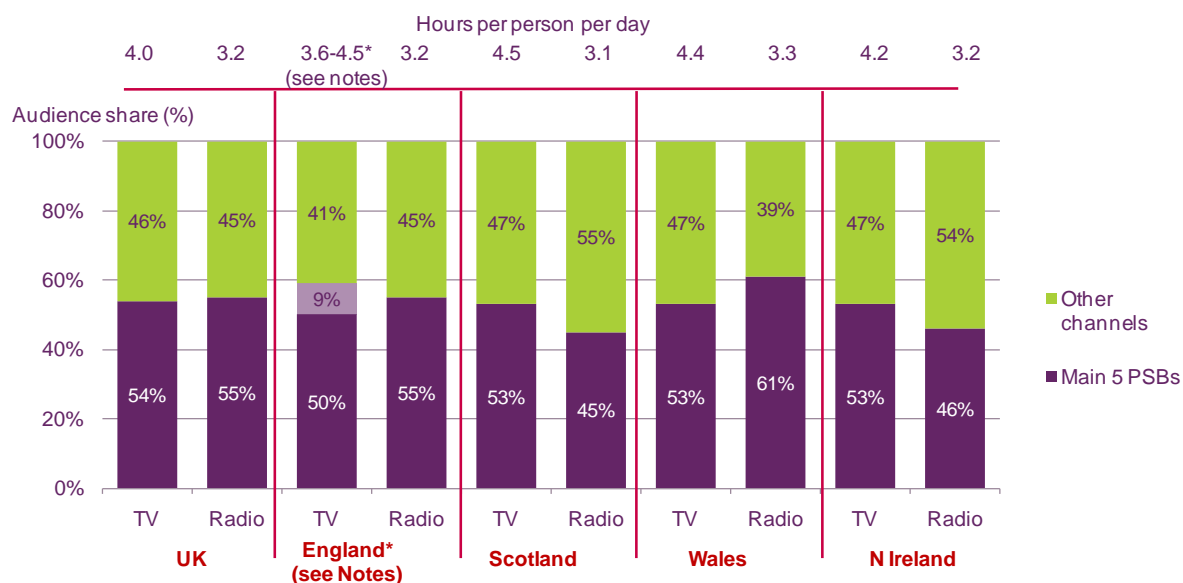
Source: broadcasters, BBC and S4C Annual Report and Accounts and Ofcom calculations. Figures include the BBC spend on programmes for S4C and BBC ALBA. Made-out-of-London figures are taken from the [Network Compliance Report, 2011](#). For further details on qualifying made out of London programmes, see [http://stakeholders.ofcom.org.uk/broadcasting/guidance/programme-guidance/reg\\_prod/](http://stakeholders.ofcom.org.uk/broadcasting/guidance/programme-guidance/reg_prod/) on the Ofcom website

## 1.8.8 Consumption of television and radio services

### TV viewing remains stable, with people across the UK watching on average 4 hours per day

In 2011, average daily TV viewing among individuals (aged 4+) in the UK remained comparable to 2010, at 4 hours per day. Viewing was highest in Wales and Scotland (average 4.5 and 4.4 hours respectively per day). Average daily radio listening among adults (15+) in the UK was 3.2 hours, levels of listening among listeners in Wales and the UK's other nations were broadly similar, and all were comparable to the 2010 figures.

**Figure 1.96 Hours of daily viewing of television and radio, by nation: 2011**



Source: TV = BARB, 2011. Based on all individuals (aged 4+). Main 5 PSBs = BBC One, BBC Two, ITV1, C4, Five.

Radio = RAJAR 2011. Based on all adults (aged 16+). PSBs = all BBC radio. National data based on TSA's of BBC Radio stations of respective nations.

\*Notes: It is not possible to provide a single figure for 'England' so instead a range is displayed reflecting the regions with the highest (North East) and lowest (West) figures respectively.

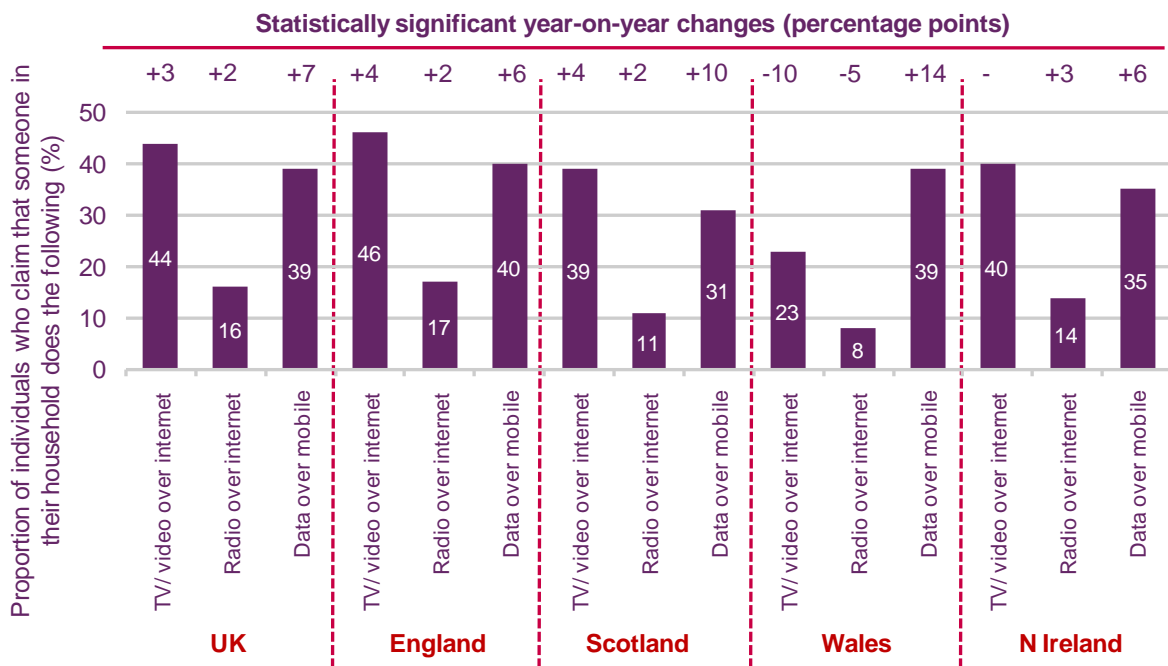
## 1.8.9 Use of converged platforms and devices by people across the UK

### Consumers' use of data on mobile handsets has increased by 22% in the past year

Four in ten (39%) of UK consumers now say that somebody in their households uses their mobile phone to access data services (internet, emails, web-enabled apps etc). This is an increase of seven percentage points (or 22%) since last year. This rapid growth has been driven by the fast-increasing popularity of smartphones.

Watching audio-visual content over the internet continues to be a popular pastime, with over four in ten (44%) homes watching services such as BBC iPlayer, 4oD and ITV Player, watching video clips online or streaming live TV. Online radio listening is more of a minority pastime, with 16% of consumers doing this across the UK.

**Figure 1.97 Consumers' use of converging platforms**



Source: Ofcom research, Quarter 1 2012

Base: All adults aged 16+ (n = 3772 UK, 2251 England, 500 Scotland, 513 Wales, 508 Northern Ireland)

QE5A-B. Which, if any, of these do you or members of your household use the internet for whilst at home?

QD28A-B. Which, if any, of the following activities, other than making and receiving calls, do you use your mobile for?/ Includes download free applications, download paid for applications, send/ receive emails, accessing the internet, connecting to the internet using Wi-Fi, using VoIP service, download a new video clip, video streaming, TV streaming, accessing/ receiving, sports/ team news/ scores, accessing/ receiving news, use IM/ instant messaging

# 1.9 Hyperlocal websites

## 1.9.1 Introduction

The growth in internet take-up and use has provided a range of opportunities for locally-focused providers to use online services as a means to reach audiences and tackle issues that are important to citizens and communities. This 'hyperlocal' website sector is evolving rapidly in the UK, enabled by developments in technology and changes in consumer behaviour. It has the potential to support and broaden the range of local media content available to citizens and consumers at a time when traditional local media providers continue to find themselves under financial pressure.

## 1.9.2 Key points

- **Use of local community websites is growing, with around 1 in 7 (14%) using services monthly or more frequently.** Adults aged between 25-34 are particularly likely to use these services (22%), while those aged above 65 are less likely (7%).
- **To those that use them, local community websites are very important, with 37% of users rating the importance of services as 7 or more out of 10.** Although this is not as high as the importance ascribed to TV by viewers (59%), it is greater than other services such as local newspaper websites (27%).
- **There are more than 400 hyperlocal websites in the UK producing original news stories, the vast majority of which (93%) are in England.** In general, sites are clustered around large urban conurbations, with London (77 websites), Birmingham (28 websites) and Bristol (8 sites) all particularly well served.
- **Collectively they produce almost 2500 stories a week, or the equivalent of 5.6 stories per week per site.**

## 1.9.3 Key characteristics of hyperlocal websites

### What do we mean by hyperlocal websites?

A broad definition of the hyperlocal website sector can be found in Nesta's recent publication *Here and Now – UK Hyperlocal Media Today*<sup>61</sup>, which describes hyperlocal media as:

*“Online news or content services pertaining to a town, village, single postcode or other small geographically-defined community” (p9)*

This is a wide definition covering a diverse set of services, including content produced both professionally and voluntarily. It includes websites that publish original stories, those that act as aggregators for news items from other providers, and forums or message boards focused on a particular geographic community. The content these websites carry can range from simple text-only blog posts to audiovisual content with interactive features. The content and tone of hyperlocal sites varies enormously. Some focus on very specific local campaigns, while others offer broader coverage of local community life.

A commonality that most hyperlocal websites share, however, is that they tend to operate at a more localised level – both in terms of geography and types of content – than traditional media providers such as local newspapers, commercial radio or regional TV.

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<sup>61</sup> Available from:

[http://www.nesta.org.uk/about\\_us/assets/features/here\\_and\\_now\\_uk\\_hyperlocal\\_media\\_today](http://www.nesta.org.uk/about_us/assets/features/here_and_now_uk_hyperlocal_media_today)

## Why are hyperlocal websites growing?

A number of factors have combined to enable the emergence of hyperlocal websites. These include:

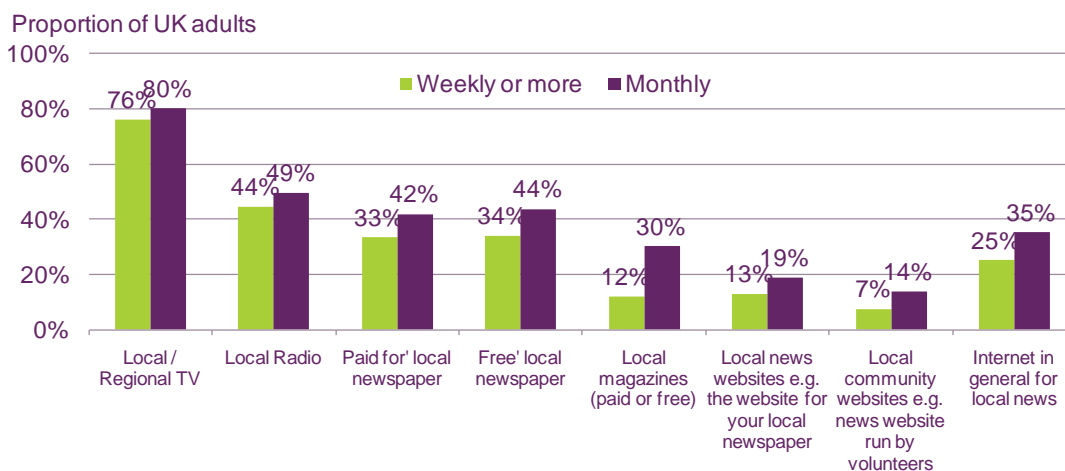
- **Technological developments** - The internet has created opportunities for both producers and consumers of content to interact at significantly reduced costs. Online services such as Wordpress and YouTube mean that it is easy for anyone to create and distribute local content, while rising ownership of devices (such as smartphones and tablets) and the use of social media and geolocation services makes consumption of this content easier too.
- **Changes in competitive environment** – The traditional local media sector has faced challenges in recent years, with declining advertising revenue and the need to make cost savings. This may have resulted in reduced local coverage of some geographic areas. Hyperlocal websites have tried to fill this gap<sup>62</sup>, in the knowledge that local news and information remains important to audiences.

### 1.9.4 Consumption of hyperlocal websites

#### Use of hyperlocal websites is growing, but this is still an emerging sector

Ofcom conducted research in May 2012 on consumers' use of local media. Hyperlocal websites – termed 'local community websites' in the survey – are used less than traditional local media such as TV and radio. However, around 1 in 7 (14%) people state that they use a local community website on at least a monthly basis.

**Figure 1.98 Frequency of local media use**



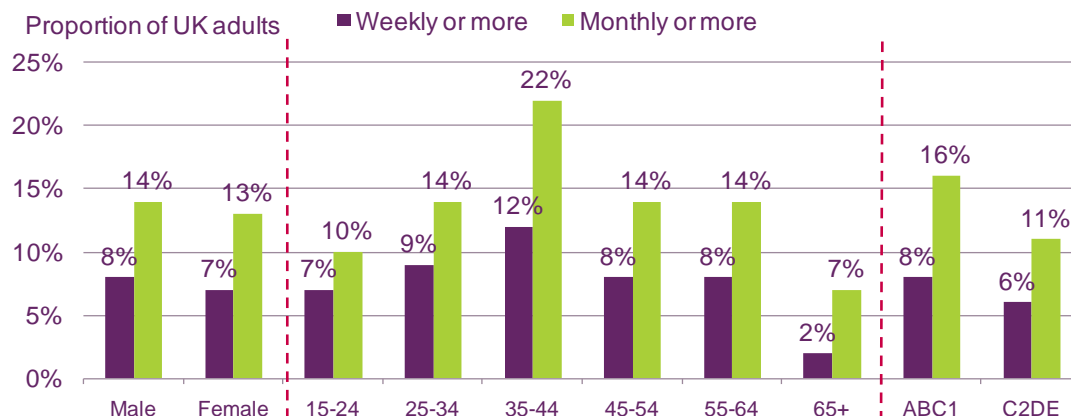
Source: Ofcom research (2012) Q: I would now like you to think specifically about your local and regional media usage. By local, I mean the area in which you live. On average, how frequently do you use each of the following things? Base: All UK adults aged 15+ (n=2452)

Local community websites are used to varying extents by different demographic groups. Although there is little difference between the levels of male and female users, there is a noticeable difference by age and socio-economic group. Over one in five (22%) individuals aged between 35-44 use local community websites at least monthly. In contrast, 15-24 year

<sup>62</sup> Similarly, the Government's local TV policy is aimed at enabling genuinely local services (as opposed to regional) to be broadcast on Freeview for the first time. Ofcom aims to license 21 local TV services in 2012.

olds and those aged above 65 are less likely to use local community websites<sup>63</sup>. Those in ABC1 households are more likely to use local community websites at least monthly (16%) than are those in C2DE households (11%).

**Figure 1.99 Frequency of use of local community websites**



Source: Ofcom research (2012) Q: I would now like you to think specifically about your local and regional media usage. By local, I mean the area in which you live. On average, how frequently do you use each of the following things? Base: All UK adults aged 15+ who use local community websites (variable base sizes)

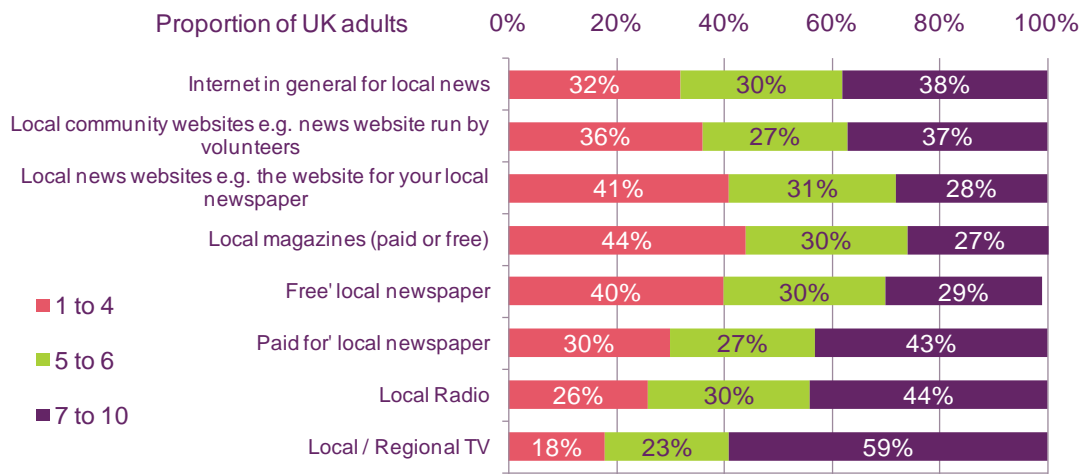
### To those who use them, local community websites are very important

Although use of local community websites is lower than that of other local media, the importance attached to them by their users is at a similar level to some other services providing local news. Thirty-seven per cent of users rated local community websites as a 7 or above in importance (where 10 is extremely important and 1 is not important at all). This is similar to the rating for the internet more generally as a source of local information (38%), local paid-for newspapers (43%) and local radio (44%). It is also significantly above other services, including local news websites run by newspapers (28%). This compares to 59% of TV users naming local /regional TV as important.

<sup>63</sup> This may be linked to lower internet access. According to Ofcom's technology tracker, 46% of those aged 65 and over have internet access at home (Q1 2012).



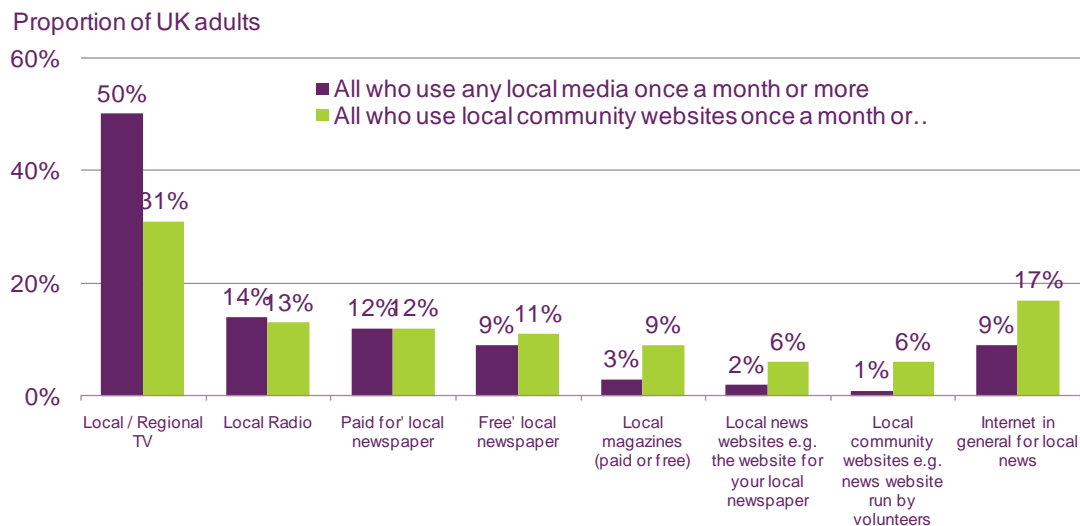
**Figure 1.100 Importance of local media, among users of each service**



Source: Ofcom research (2012) Q: Using a scale of 1 to 10, where one is not at all important and you would not miss it if it were not available, and ten is extremely important and you would miss it if it were not available, how important are the following types of local media to you?? Base: All UK adults aged 15+ (variable base sizes)

When asked about the most important local media source, consumers are much more likely to choose mainstream services such as local / regional TV (50%) rather than local community websites (1%). However, those who use local community websites are more likely to rate them as the most important media source (6%).

**Figure 1.101 Most important local media source**



Source: Ofcom research (2012) Q: Using a scale of 1 to 10, where one is not at all important and you would not miss it if it were not available, and ten is extremely important and you would miss it if it were not available, how important are the following types of local media to you?? Base: All UK adults aged 15+ (n=2024 for all media, n=328 for local community websites)

**There are more than 400 hyperlocal websites in the UK producing original news stories (that we know about)**

Mapping the size of this sector is a difficult task. Hyperlocal websites are an emerging phenomenon, and as such there is no established trade association or official membership

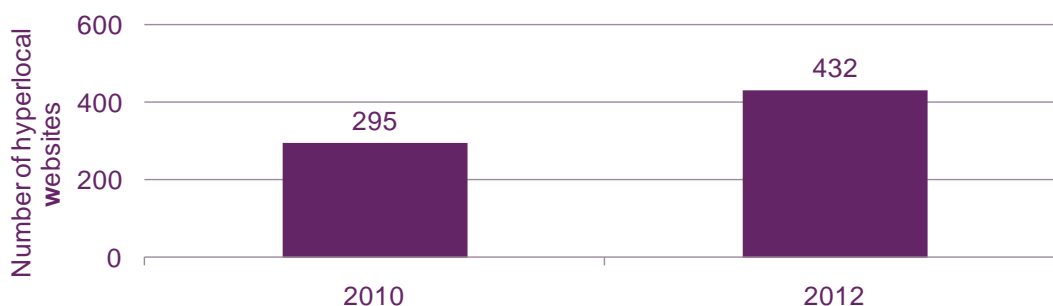
body. And as services are unregulated, there is no requirement for them to notify Ofcom or any other organisation.

There are, however, resources available which provide a basis for quantifying the size of the sector. A database of hyperlocal websites has been established by Openly Local<sup>64</sup>, a project aimed at developing an open and unified way of accessing local government information. Sites are listed through a combination of self-declaration and research by the Openly Local team.

These data have been analysed by Birmingham City University, as part of an Arts and Humanities Research Council and Engineering and Physical Sciences Research Council funded programme (of which Ofcom is a partner) which focuses on the creative citizen<sup>65</sup>. The work has estimated the size of the hyperlocal website sector through interrogation of the Openly Local directory.

Using a definition of an 'active' hyperlocal site as one that had published at least once in the five months prior to the sample period, as well as using the definition we have listed above (whereby news is the focus rather than message forums), research shows that the database currently records 432 active hyperlocal websites across the UK<sup>66</sup>. A similar snapshot taken in 2010 shows 295 sites listed – representing a 46% increase in sites in two years. In comparison, the Newspaper Society estimates that there are around 1,600 websites associated with local and regional newspapers in the UK<sup>67</sup>.

**Figure 1.102 Active hyperlocal sites listed on Openly Local**



Source: Openly Local / Birmingham City University (May 2012)

Ninety-three per cent of the active hyperlocal websites we identified are based in England. There is a particular focus on urban areas, with 38 services focused on localities in London. Birmingham had the greatest concentration of hyperlocal websites, with 28 active sites, while there were eight sites operating in the Bristol area. In general, there is a clustering of sites around large urban conurbations. However, some rural areas were well served, with South Gloucestershire having 11 sites, largely aimed at small towns and villages, and Wiltshire having ten.

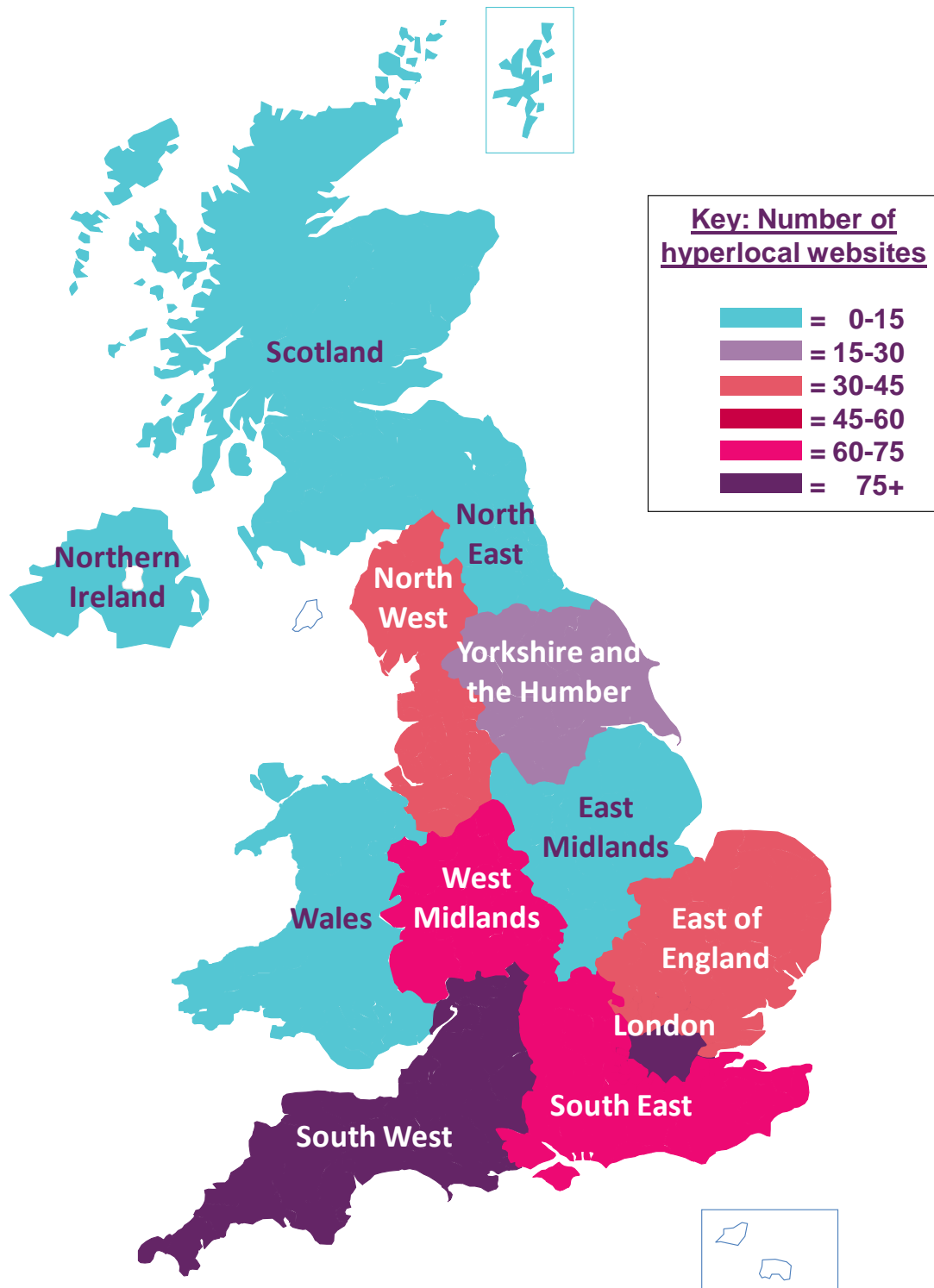
<sup>64</sup> See [http://openlylocal.com/hyperlocal\\_sites](http://openlylocal.com/hyperlocal_sites)

<sup>65</sup> See <http://creativecitizens.co.uk/>

<sup>66</sup> The directory contains some sites which are no longer operating (the URL either does not resolve or points to a site no longer publishing news items).

<sup>67</sup> <http://www.newspapersoc.org.uk/>

Figure 1.103 Location of hyperlocal websites in the UK



Source: Openly Local / Ofcom / Birmingham City University (May 2012)

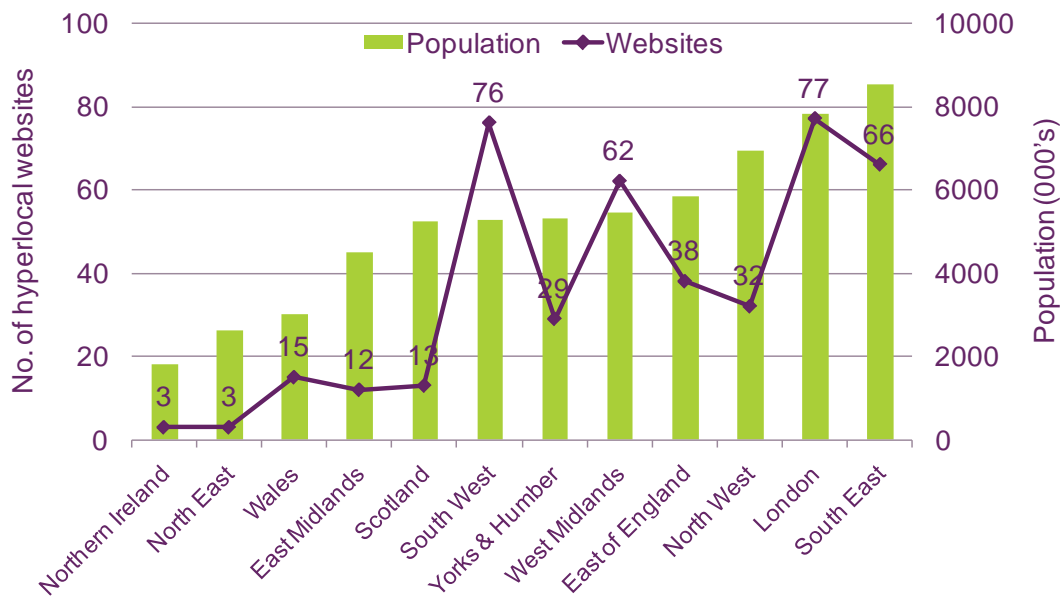
**Figure 1.104 Council areas with five or more hyperlocal websites**

<b>Council Name</b>	<b>No. sites</b>
Birmingham City Council	28
Wiltshire Council	11
South Gloucestershire District Council	11
Bristol City Council	8
Ryedale District Council	7
City of Edinburgh	7
Stoke-on-Trent City Council	7
Leeds City Council	7
Cornwall Council	7
London Borough of Richmond upon Thames	7
Cardiff Council	6
London Borough of Lambeth	6
North Somerset Council	5
Mendip District Council	5
Cheshire East	5
Brighton and Hove City Council	5
London Borough of Lewisham	5
Greater London Authority	5

*Source: Openly Local / Birmingham City University (May 2012)*

Many areas of the UK appear to have no hyperlocal provision at all (although the limitations of the data collection may mean that some of these areas are served by sites that have not registered with Openly Local). There appears to be only a loose correlation between population size and hyperlocal website provision. The areas with the lowest populations (Northern Ireland and the North East) also have the smallest number of hyperlocal websites, while more populous areas of the UK (such as London and the South East) are well served by the sector. But there are significant variations between areas. While Scotland and the South West are similar in population terms, with a little over 5 million individuals each, they have strikingly different hyperlocal website sectors – only 13 in Scotland against 76 in the South West. It may be, therefore, that there are other variables which explain the distribution of hyperlocal websites across the UK.

**Figure 1.105 Comparison of population and hyperlocal website provision**



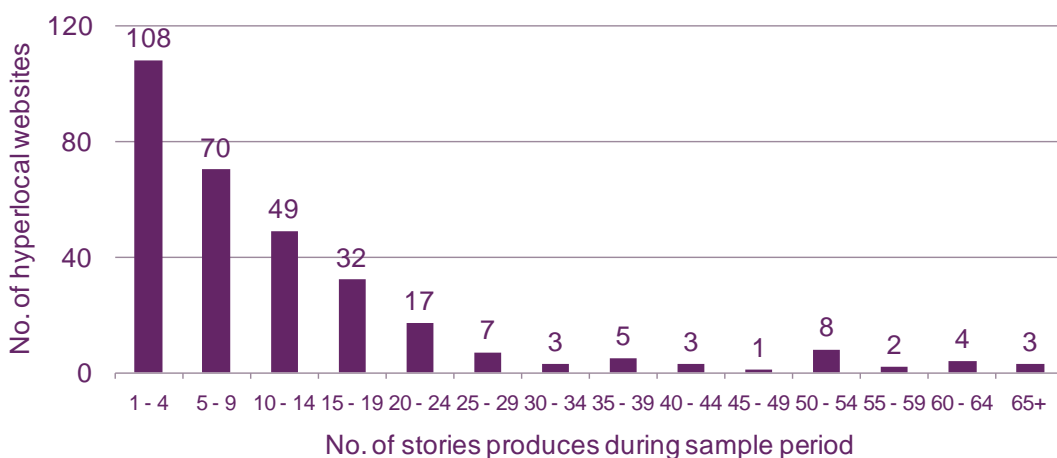
Source: Openly Local / Birmingham City University / ONS / Ofcom (May 2012)

**There is a high variance in the number of articles that hyperlocal websites publish**

During a sample period of 11 days in May 2012, Birmingham City University researchers counted the number of articles published by hyperlocal websites. In total, 3819 items were found to be produced during this period.

Further analysis revealed that 312 of the 432 sites produced at least one story during the sampling period (72%). On average, an active hyperlocal website publishes 7.7 items a week, but the lower median figure (4.2) shows that activity varies widely by site. There is significant variance in the frequency of publication – 20% of sites are responsible for 58% of the output, and 75% of items were produced by a third of the sites. Thirty-nine sites produced just one story in the sample period, while 17 sites produced more than 50 items.

**Figure 1.106 Stories produced by 312 hyperlocal websites during an 11-day sample period**



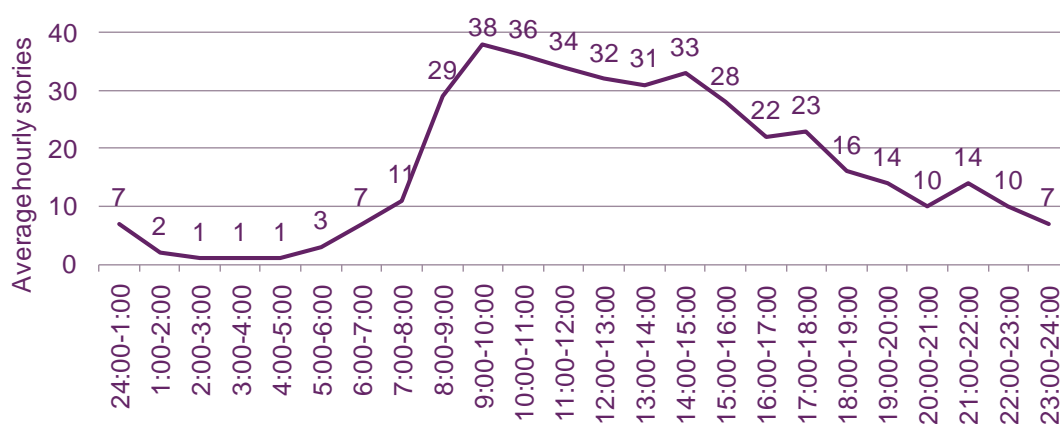
Source: Ofcom / Birmingham City University (May 2012)

These figures highlight the variety of services that operate within the sector. Clearly there are some websites which are particularly active in publishing original news stories, whereas others produce content on a more sporadic basis. This may be because some website operators are able to dedicate more time to writing stories, or because there are more notable events and activities in some areas than in others.

**The collective output of the sector is substantial, with publishing highest during the morning**

Collectively, the hyperlocal website sector publishes 15 news stories per hour at an average of 366 items per day. On weekdays between 7am and 7pm production averaged 24 items per hour, with the highest number of stories being published between 9am and 10am (an average of 38 stories).

**Figure 1.107 Average hourly stories from hyperlocal sites, excluding weekends**



Source: *Openly Local/Birmingham City University/Ofcom (May 2012)*

**Hyperlocal websites may have consumer and citizen benefits**

As use of hyperlocal websites continues to grow – with around 1 in 7 people now using them at least monthly – these services may be well positioned to play an important role in the provision of local news and information to communities. Hyperlocal websites are often more localised both in terms of geographical and story focus, covering stories which more mainstream services are unaware of, or choose not to cover. Although hyperlocal websites are not yet ubiquitous, many of them were created in order to fill particular gaps in the provision of locally-focused content. Furthermore, the value and role of this type of community media may go beyond the provision of content, with the potential for specific value in the social capital generated through the production of hyperlocal websites.

Because of these potential societal benefits, and the increasing role that these services are likely to play in the local media ecosystem, Ofcom plans to continue to follow the development of the hyperlocal website sector.



# The Communications Market 2012

## 2 TV and audio-visual

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## 2.1 Key market developments in TV and audio-visual

### 2.1.1 Industry metrics and summary

Figure 2.1 Industry metrics

UK television industry	2005	2006	2007	2008	2009	2010	2011
Total TV industry revenue (£bn)	10.5	10.6	11.1	11.2	11.1	11.7	12.3
Proportion of revenue generated by public funds	25%	25%	25%	24%	25%	23%	22%
Proportion of revenue generated by advertising	35%	33%	32%	31%	28%	30%	29%
Proportion of revenue generated by subscriptions	35%	36%	37%	39%	41%	41%	42%
TV as a proportion of total advertising spend	30%	28%	27%	27%	28%	29%	29%
Spend on originated output by 5 main networks (£bn)	3.0	2.8	2.7	2.6	2.4	2.5	2.5
Digital TV take-up	62%	70%	86%	87%	91%	93%	96%
Proportion of DTV homes paying for TV (Q1)	64%	60%	55%	53%	55%	55%	54%
Viewing per head, per day (hours) in all homes	3.65	3.60	3.63	3.74	3.75	4.04	4.03
Share of the five main channels in all homes	70%	67%	64%	61%	58%	56%	54%
Number of channels broadcasting in the UK	416	433	470	495	490	510	515

Source: Ofcom/broadcasters/Advertising Association/Warc/BARB/GfK. Note: Public funds include the DCMS grant to S4C and BBC funding that is allocated to TV; TV as a proportion of total advertising spend excludes direct mail and is based on Advertising Association/Warc Expenditure Report ([www.warc.com/expenditurereport](http://www.warc.com/expenditurereport)); spend on originations includes spend on nations and regions programming (not Welsh and Gaelic language programmes but some Irish language).

This section examines key developments and trends seen in the UK television market during the past year. These include:

- **Total TV industry revenues increased by 4.9% (or £579m) in nominal terms to £12.3bn in 2011**, driven by continued growth in TV subscription income, coupled with an increase in TV advertising revenues.
- **The recovery in the TV advertising market seen in 2010 was sustained in 2011, with ad revenues up 2.1% to £3.6bn.** The total value of the TV advertising market has not only returned to, but now exceeds (in nominal terms) levels seen before the economic downturn.
- **Digital TV take-up in the UK is almost universal, as digital switchover (DSO) enters its final phase.** The percentage of UK homes with digital TV increased by three percentage points; from 93% in Q1 2011 to 96.2% in Q1 2012, as more regions switched to digital.
- **Despite the growth of online catch-up TV via a PC or mobile, the main TV set remains the dominant device for consuming audio-visual content.** In Q1 2012, 29% of UK adults claimed to consume audio-visual content online, compared to a reach of 97% of the adult population consuming it via a TV set.

- **Just under a third (29%) of UK adults in Q1 2012 used catch-up TV services online.** However, there is evidence to suggest that the growth of catch-up services via a PC is slowing down, with an increase of only three percentage points year on year from 27% in 2011, as catch-up services become increasingly available via internet-enabled TV sets.
- **9.3 million flat screen TVs were purchased in 2011 – equivalent to one in every three households<sup>68</sup> - according to data from TV Licensing.** In addition, sales estimates from GfK show that in Q1 2012, over a third (35%) of sales were for 'super-large' (33" to 42") or 'jumbo' screens (43" and over). In comparison, in 2001 the equivalent figures for super-large and jumbo TV screens was just 1%.
- **According to Ofcom's *Technology Tracker*, 5% of UK households with a TV own a smart TV.** However, this figure is set to rise, as smart TV set sales have doubled in the past year and now represent a fifth of all TV sales.
- **Smart TVs represent one fifth (2.9 million sets) of all TVs sold since 2010.** Among owners of smart TVs, 65% said they had used the internet connection on their TV. This is despite the fact almost half (47%) smart-TV owners said that internet functionality was not a consideration for them when choosing a new set.
- **Smart TVs are used most widely for watching catch-up TV.** Among users of smart TVs, 51% had used their set to watch catch-up TV, while activities like social networking (25%) and online shopping (13%) were much less commonly undertaken on smart TVs.

### 2.1.2 TV industry revenue up 4.9% to £12.3bn in 2011, as recovery in ad market is sustained

Total TV industry revenues increased by 4.9% (or £579m) in nominal terms to £12.3bn in 2011, driven by continued growth in TV subscription income, coupled with an increase in TV net advertising revenue (NAR).

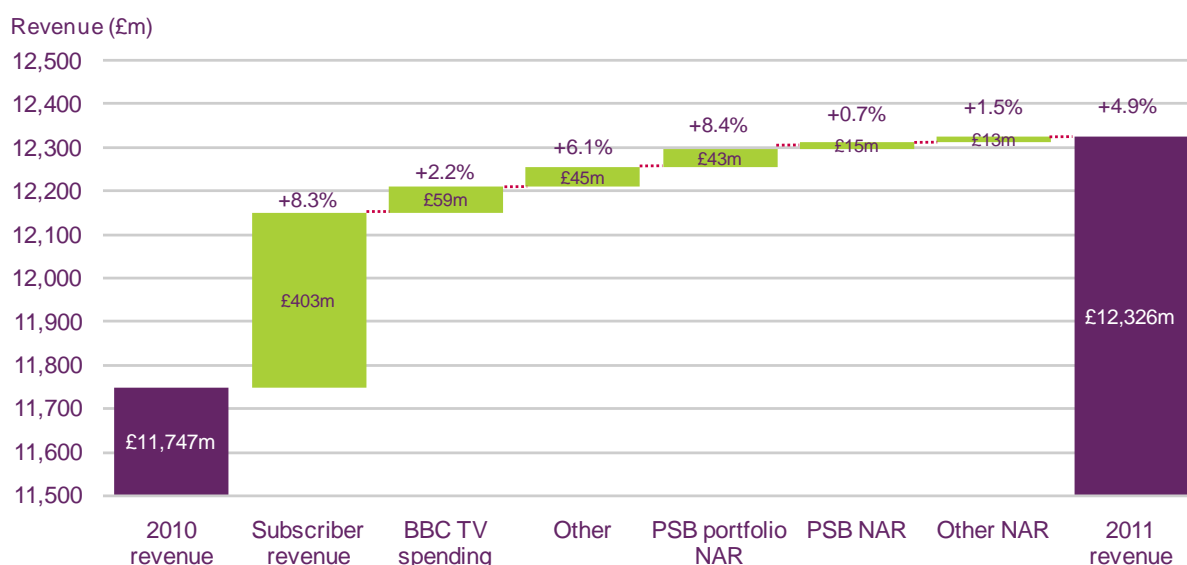
Revenue from pay-TV subscriptions has remained largely unaffected throughout the economic downturn and increased again in 2011 by £403m (or 8.3%) to £5.2bn – by far the largest increase of the different sources of income within the TV industry.

**The recovery in the TV advertising market seen in 2010 was sustained in 2011, with ad revenues up 2.1% to £3.6bn.** The total value of the TV advertising market has not only returned to, but now exceeds (in nominal terms) levels seen before the economic downturn. As outlined in Figure 2.2, much of the growth in 2011 can be attributed to increases in the multichannel sector and the PSB digital portfolio channels.

Income for publicly-funded channels, including BBC revenue allocated to TV, and S4C's grant from the Department for Culture, Media and Sport, increased by 2% to £2.8bn.

<sup>68</sup> TV Licensing Telescope Report, 2012  
[http://www.tvlicensing.co.uk/resources/library/BBC/MEDIA\\_CENTRE/TV\\_Licensing\\_Telescope\\_Report\\_2012.pdf](http://www.tvlicensing.co.uk/resources/library/BBC/MEDIA_CENTRE/TV_Licensing_Telescope_Report_2012.pdf)

**Figure 2.2 Total TV industry revenue, by source**

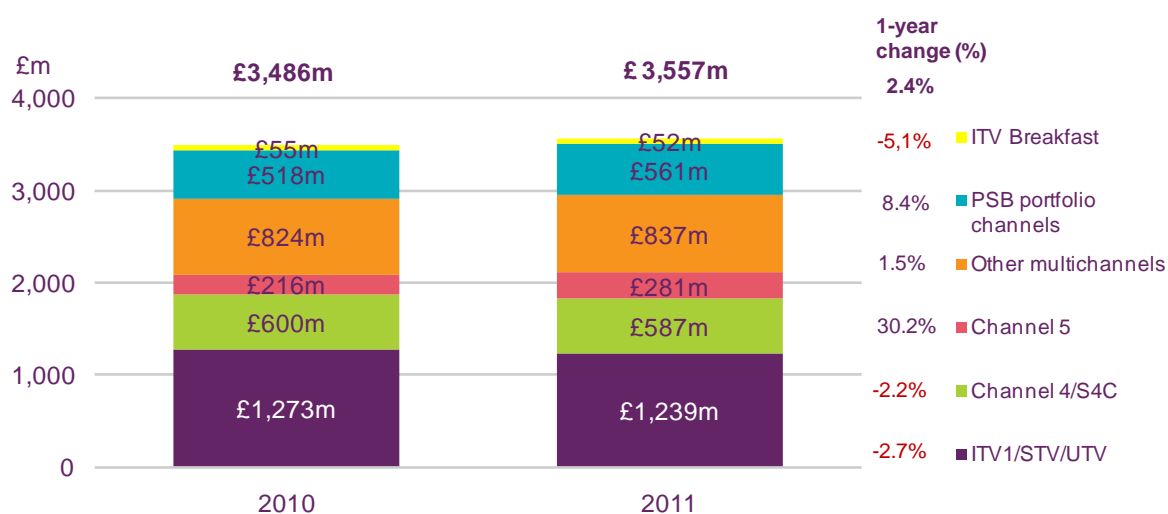


Source: Ofcom/broadcasters. Note: Figures expressed in nominal terms. PSB NAR comprises Channel 3 licensees (including ITV Breakfast, ITV Plc, Channel Television, STV and UTV), Channel 4, Channel 5 and S4C. PSB portfolio NAR includes commercial channels owned by the PSBs (ITV2, ITV3, ITV4, E4, More 4, Film 4, 5\* and 5USA. 'Other NAR' comprises the rest of the multichannel market. Platform operator revenues do not include installation costs, equipment sales or subsidies. BBC TV spending represents the amount of BBC revenue that is allocated to TV, which is estimated by Ofcom based on Note 2c in the BBC's annual report and accounts 2011/12.

Figure 2.3 illustrates how share of total TV advertising revenues breaks down by the different channel categories. The largest year-on-year increases in TV advertising revenue came from the PSB digital portfolio channels, which saw revenues increase by 8.4% (or £43m) to £561m. The commercial multichannel sector also experienced a rise in income generated from advertising, increasing by 1.5% (or £13m) to £837m.

In 2010, the main commercial PSB channels (ITV1, STV, UTV, Channel Television, ITV Breakfast, Channel4/S4C and Channel 5) had the largest resurgence in TV advertising revenues of all the channel categories, increasing by £248m or 13%, although in 2011 these channels combined experienced only a marginal rise of £15m or 0.7%. Of the four main commercial PSB channels (ITV1, ITV Breakfast, Channel 4 and Channel 5), only Channel 5's income from advertising experienced growth in 2011 (up 30% to £281m) - ITV1, ITV Breakfast and Channel 4 all experienced year-on-year declines (down 2.7%, 5.1% and 2.2% respectively).

**Figure 2.3 Advertising revenue, by share**



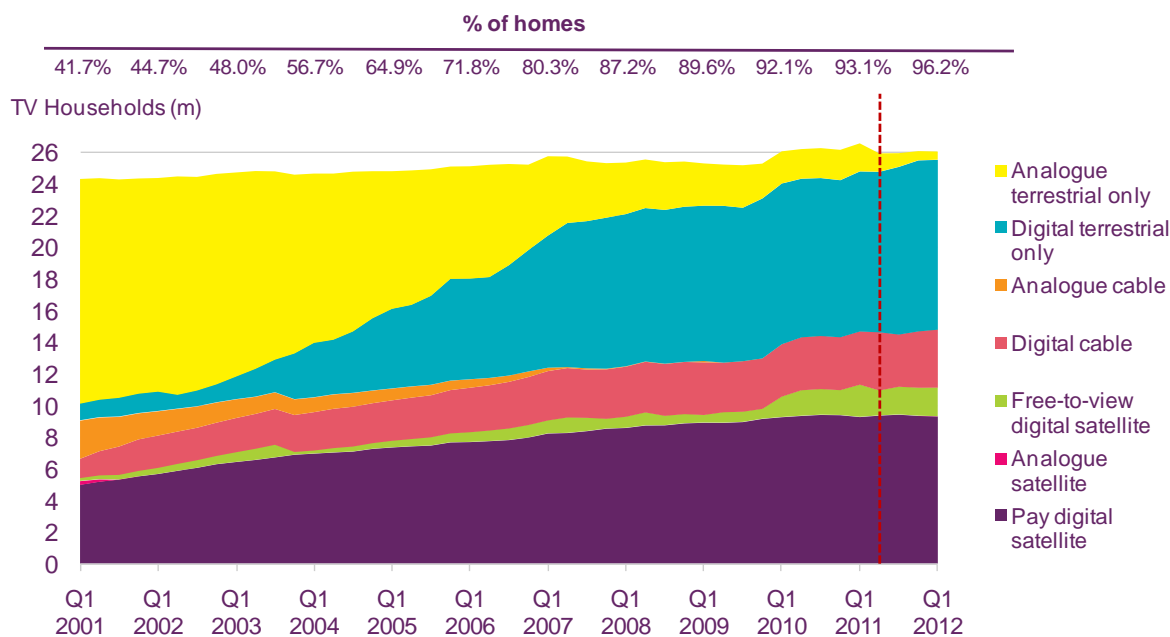
Source: Ofcom/broadcasters. Note: Totals may not equal the sum of the components due to rounding. ITV1/Channel 3 includes ITV Plc, STV, UTV and Channel Television.

### 2.1.3 Digital TV take-up almost universal as switchover nears completion

Digital TV penetration increased further to 96.2%<sup>69</sup> of all UK homes in Q1 2012 as more regions switched to digital. Figure 2.4 below shows the progress of multichannel television growth since 2001. The proportion of UK homes with analogue terrestrial only has diminished steadily over the last ten years, from an estimated 14.2 million households in Q1 2001, when it was the predominant multichannel platform, to just 500,000 in Q1 2012. Conversely, the number of homes with digital satellite and digital cable has risen over the corresponding time period, from 4.9 million homes in Q1 2001 to 9.3 million homes in Q1 2012 and from 1.2 million homes to 3.7 million homes respectively.

<sup>69</sup> Note that the source used for digital television take-up is different to that used in the CMR Nations report. Data may therefore vary slightly.

**Figure 2.4 Multichannel take-up in UK households**



Source: BARB Establishment Survey from Q2 2011, Ofcom/GfK NOP research from Q1 2007, previous quarters include subscriber data and Ofcom market estimates for DTT and free satellite  
 Note: Digital terrestrial relates to DTT-only homes.

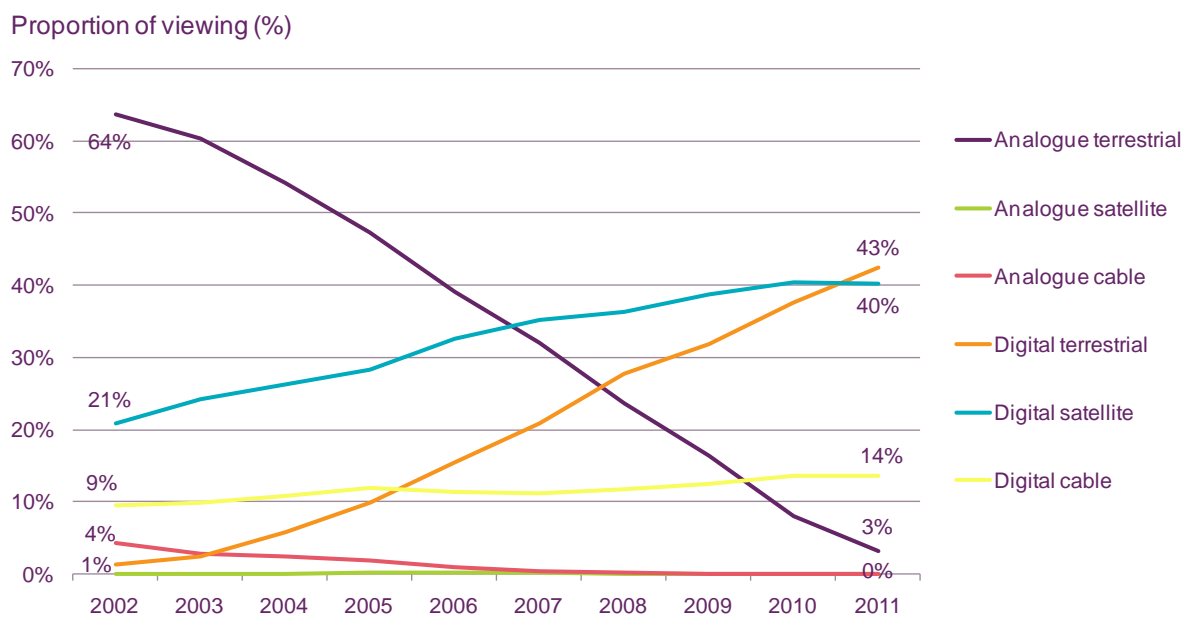
**Total viewing via the digital terrestrial signal has the greatest share of viewing, at 43%**

In order to examine the effects of digital switchover on viewing, we have analysed TV viewing based on the platform signal through which viewing takes place. This analysis is useful in helping us understand how total viewing is split across different platform signals.

Figure 2.5 illustrates the share of total TV viewing (includes viewing to all channels) based on the signal type through which viewing takes place. In line with the increased take-up of multichannel TV over the past ten years, driven in part by DSO, virtually all TV viewing (97%) takes place via a digital TV platform signal. In 2002, viewing via analogue terrestrial signal represented around two thirds (64%) of total TV viewing. As more TV sets have become digital and more viewing takes place via the digital signal, this figure has declined to 3% of total viewing in 2011.

In contrast, total viewing via the digital terrestrial signal has grown from 1% in 2002 to a 43% share in 2011- and for the first time its share surpassed digital satellite in 2011. Viewing via the digital satellite signal has seen its share almost double; from 21% in 2002 to a 40% in 2011, although the rate of growth has slowed in the past few years. Share of total TV viewing via the digital cable platform signal has risen by five percentage points to 14% in 2011, but as with digital satellite, has seen a plateau in its growth rate.

**Figure 2.5 Share of total TV viewing, via signal type: 2002 – 2011**



Source: BARB, all individuals (4+), all homes. Based on total minutes of viewing on all sets. Note: New BARB panel introduced in 2010. As a result pre- and post-panel change data must be compared with caution.

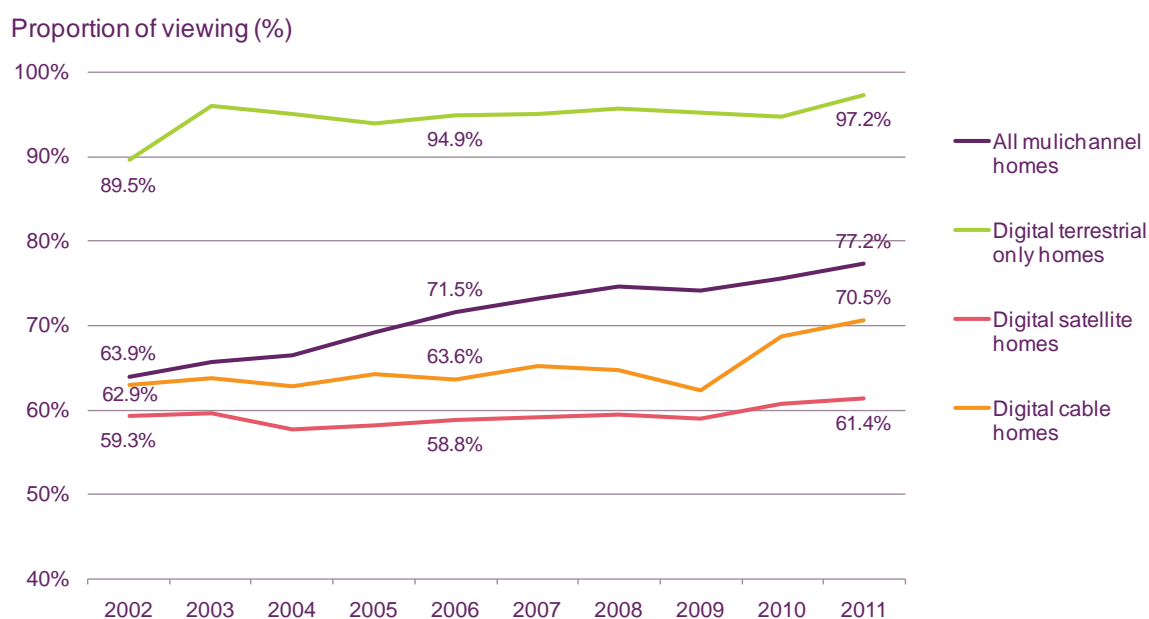
Analysis of viewing based on TV home platform type, shown in Figure 2.6, demonstrates the growth in viewing of channels available via digital terrestrial. Each home is categorised by the TV platform available on the primary TV set in the home. (For the purpose of this chart ‘free to view’ channels are defined as those channels available via the digital terrestrial platform as of May 2012<sup>70</sup>).

Share of viewing to the ‘free to view’ channels has increased in both digital satellite and cable homes since 2002.

Among digital cable homes viewing of the ‘free to view’ channels has grown by 7.6 percentage points since 2002 (62.9% to 70.5% in 2011). In digital satellite homes the increase has been more modest, rising only two percentage points from 59.3% in 2002 to 61.4% in 2011. Part of this increase may be driven by the fact that the range and number of additional channels have increased on digital terrestrial over this period.

<sup>70</sup> <http://freeview.co.uk/Channels>

**Figure 2.6 Share of viewing of 'free to view' channels, by TV home type**

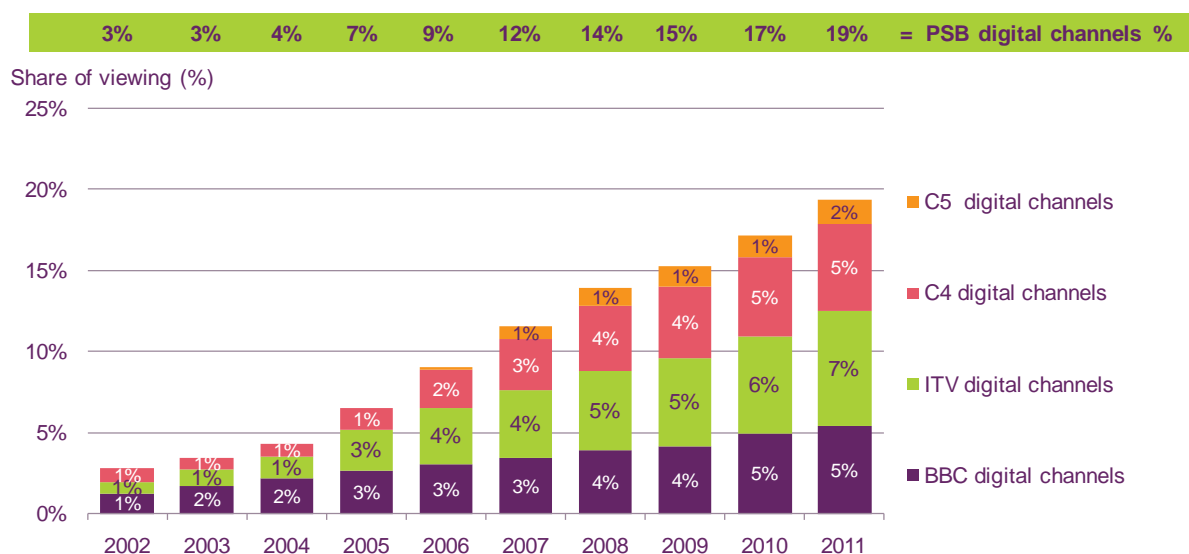


Source: BARB, all individuals (4+), all homes. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. 'Free to view channels' defined as those available on digital terrestrial only as of May 2012. Not all channels on the digital terrestrial platform were available in previous years, neither are all channels individually reported via BARB, therefore DTT total does not equal 100%.

**The PSB portfolio channels represented 19% share of total TV viewing in 2011, up from 3% in 2002**

Over the past decade the PSBs have developed a wide range of portfolio channels. Figure 2.7, below, shows how viewing of the PSB portfolio channels has grown from 3% in 2002 to 19% of total viewing in 2011. It should be noted that the number of channels available has increased over time, but nevertheless, the retention of TV viewing share by the PSBs overall has been driven by the success of their respective portfolio channels. Each of the four broadcaster groups has enjoyed increases in viewing, with ITV's portfolio channels experiencing the greatest increase (a total 2% share in 2002, increasing to 7% in 2011).

**Figure 2.7 Channel share for PSB digital portfolio channels, all homes: 2002 - 2011**



Source: BARB, All Individuals (4+), all homes<sup>71</sup>. Note: New BARB panel introduced 1st Jan 2010. As a result, pre- and post-panel change data must be viewed with caution.

### 2.1.1 Evolution of the TV set

#### Viewing via the TV set remains strong, alongside signs of a slowing in the rate of growth of TV consumption online

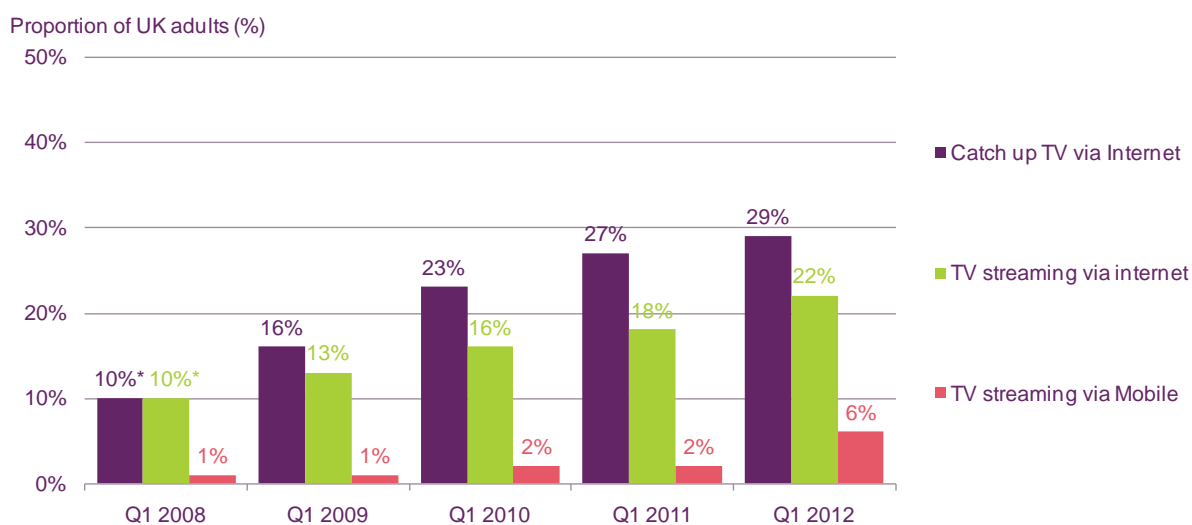
The increase in broadband take-up, now in 76% of UK homes, coupled with growth in smartphone ownership (39% of UK adults), offer many consumers the opportunity to consume TV content on devices other than the traditional TV set.

However, our research shows that these remain minority pastimes, with the rate of growth of viewing online showing some signs of slowing down. Figure 2.8 shows that in Q1 2012 29% of all UK adults used catch-up TV services online and 22% streamed TV online. While use has grown from 10% of UK adults in Q1 2008, the rate of growth has shown some signs of slowing down, potentially related to catch-up services being increasingly available through internet TV sets. Around 6% of UK adults used their mobile to watch TV, a marked increase from 2% in Q1 2011, but still a small minority. (The launch of BBC iPlayer, 4OD and Sky Go apps in the second half of 2011 are likely to have played a role in the relatively large increase since Q1 2011). Nevertheless, watching TV on a mobile phone can be expected to increase, as smartphone take-up continues to grow and more services become available.

<sup>71</sup>Data charted based on the following channel groupings: BBC digital channels = BBC3, BBC4, BBC News, BBC Parliament, CBeebies, CBBC. ITV digital = ITV1+1, ITV2, ITV3, ITV4, CITV. C4 digital = C4+1, E4, More4, Film 4. C5 digital = C5+1, 5\*, 5USA. Time-shifted channels for digital channels are included within data.



**Figure 2.8 Audio-visual consumption online and via mobile: Q1 2008 – Q1 2012**



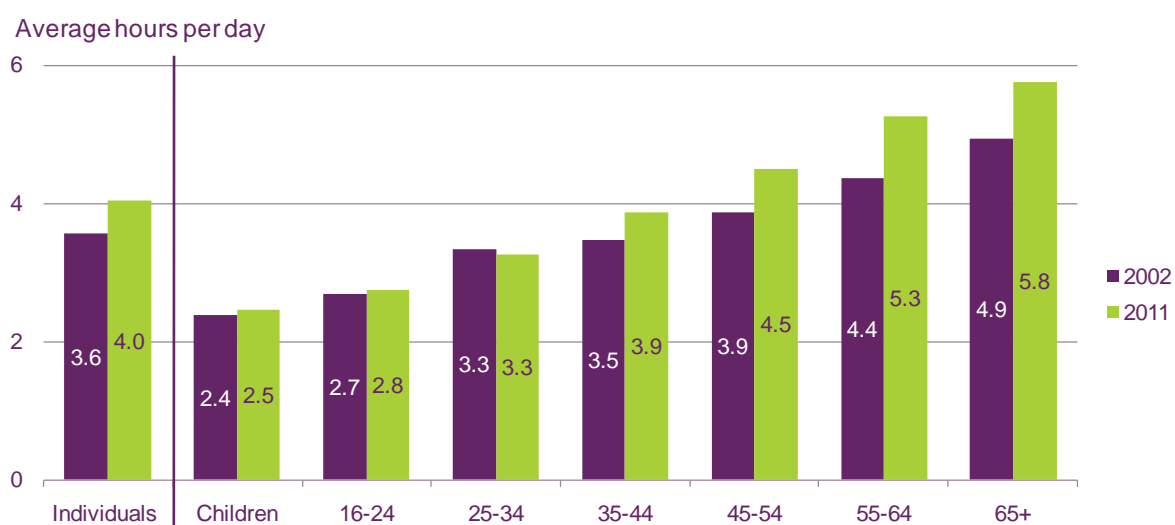
Source: Ofcom Technology Tracker. All adults 16+ (note - data has been re-based from all those with internet access and mobile phones respectively). Based on Q1 survey data for each respective year. Internet: Q - Which, if any, of these do you or members of your household use the internet for whilst at home? Mobile: Q - Which if any, of the following activities, other than making and receiving voice calls, do you use your mobile for?

\* Data for internet responses from Q1 2008 are based on respondents stating 'watch TV programmes'

### TV viewing on a TV set remains popular with all age groups

By comparison, 97% of the adult population watched TV via a TV set in 2011. Furthermore, viewing levels (via the TV set, as measured by BARB) have increased across most age groups. In 2002 average daily TV viewing stood at an average of 3.6 hours per person; by 2011 this had increased to an average of 4 hours (Figure 2.9). Note: BARB introduced a new panel on 1 January 2010 and comparisons before and after the panel change should be treated with caution.

**Figure 2.9 Average daily hours of TV viewing, by age: 2002 vs. 2011**



Source: BARB, all homes. Individuals = 4+. Children = 4-15 years. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution.

## Technological developments provide more choice, greater control and better viewing experiences on the TV set

The TV set has evolved over the past decade, and this has helped it to retain viewers. Technological advancements can loosely be grouped into two areas:

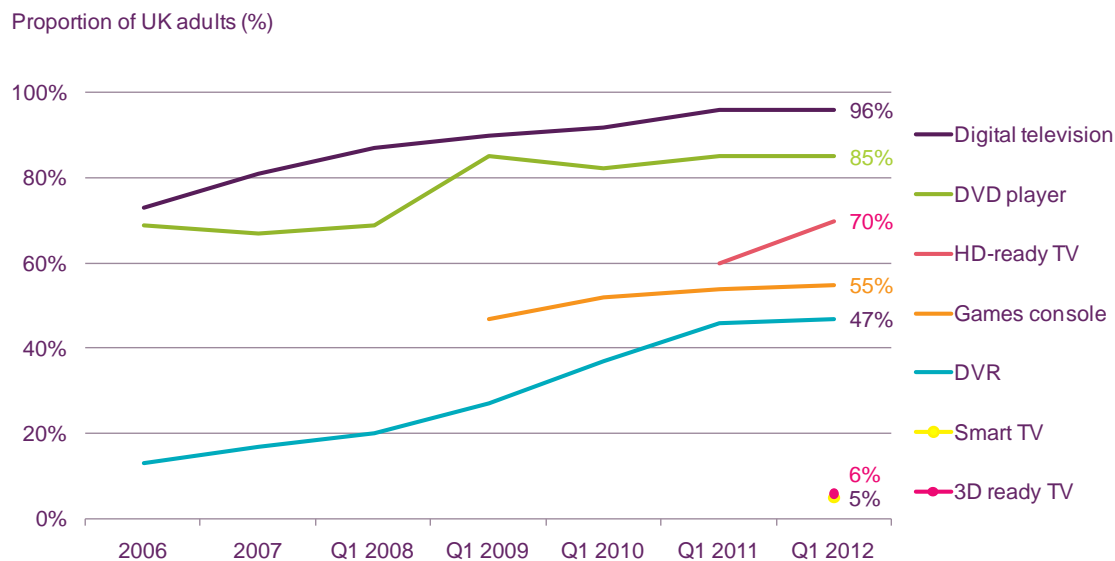
- Technology ‘around’ the TV set (e.g. increased take-up and capability of set-top boxes)
- Developments in the physical hardware of TV sets (e.g. larger screens).

As a result the TV set today offers the viewer greater levels of choice, control, and viewing experience.

The rapid growth of multichannel television over the past decade, in part prompted by digital switchover (DSO), resulted in huge increases in the penetration of set-top boxes and an accompanying proliferation of channels, providing more choice for the viewer. On Freeview alone, they have a selection of around 50 channels. According to Ofcom research, digital television take-up now stands at 96% of UK households.

The increased take-up of digital video recorders (DVRs), for example, has given many viewers the ability to watch TV at their convenience with a greater level of control and flexibility. Forty-seven per cent of UK homes now have a DVR (Figure 2.10).

**Figure 2.10 Take-up of audio-visual devices: 2006 - Q1 2012**



Source: Source: Ofcom Technology Tracker survey

Note: The question wording for DVD Player and DVR was changed in Q1 2009, so data are not directly comparable with previous years.

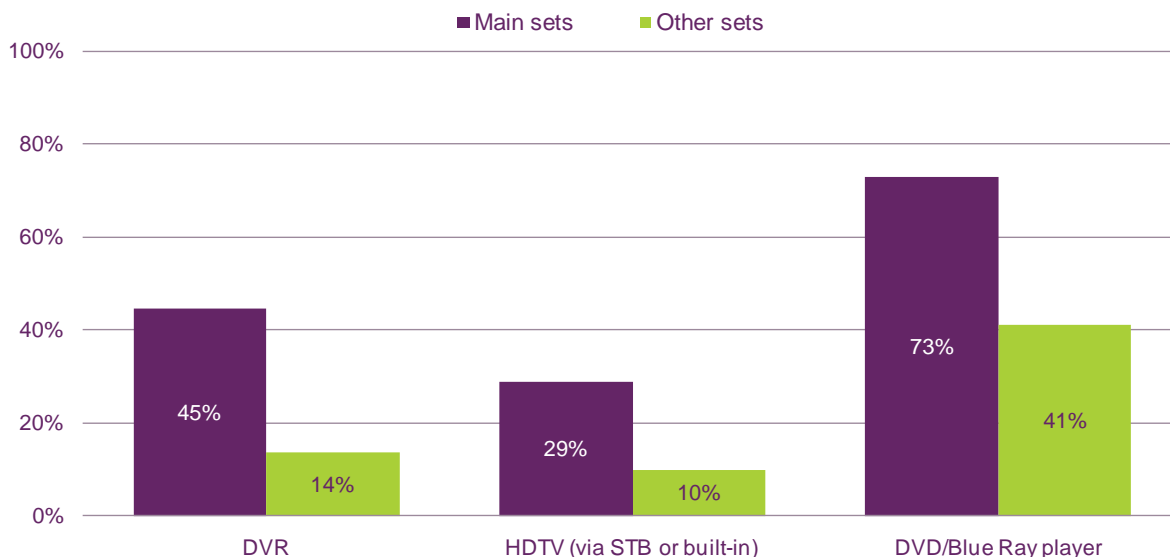
### The ‘main’ TV set benefits most from technology enhancements

In the past few years TV sets has been enhanced by advances in technology, such as increased connectivity (see section 2.1.2 on connected TVs for more details).

Invariably it has been the main TV set in the home that has benefited most from these changes. Ofcom’s 2011 *Digital Television Update* illustrated how satellite and cable services are more likely to be present on the main set, while other TV sets in the household are more

likely to offer digital terrestrial or analogue services<sup>72</sup>. In addition, the BARB *Establishment Survey* reports that in 2011, 45% of main TV sets were connected to a DVR, compared to just 14% of other sets; 29% of main sets had HD capability, compared to 10% of other sets in the home (Figure 2.11).

**Figure 2.11 Ownership of TV device technology, main set vs. other sets: 2011**



Source: GfK NOP research ('Digital' data) taken from Ofcom's July 2011 DTV update report. Remaining data from BARB *Establishment survey. Annual network report, Q2 2011. Data based on all UK TV households (= 98% of all UK households)*

### Over a third of TV sets sold are 'super-large' (33" to 42") 'jumbo-sized' (43"+)

Advances in hardware features, such as increased screen size, are likely to have contributed to the lasting appeal of the TV set.

In the early 2000s plasma and LED screens launched onto the mass market, followed by the arrival of HD-ready sets. HD TV sets have proved popular, and have led to a rapid increase in the number of HD channels - from the BBC launch in 2006, of the first channel to be broadcast in HD, to the 65 channels available in 2011. In 2010, 3D TV sets came onto the market, and while penetration is still relatively low, take-up in the UK is expected to build on the 700,000 sets already sold in 2011<sup>73</sup>.

It can be argued that significant price drops in new and large-screen models, as well as increased capabilities and features, have encouraged the purchase of new TV sets, with the DSO process also acting as a catalyst (providing a 'need' to upgrade). The end result has been strong sales performances of new TV sets in the UK. For example, 9.3 million flatscreen TVs were bought in 2011 alone – equivalent to one in every three households<sup>74</sup> -

<sup>72</sup>Ofcom's July 2011 *Digital Television Update* report can be accessed here: [http://stakeholders.ofcom.org.uk/binaries/research/tv-research/tv-data/dig-tv-updates/DTV\\_charts\\_q1\\_2011.pdf](http://stakeholders.ofcom.org.uk/binaries/research/tv-research/tv-data/dig-tv-updates/DTV_charts_q1_2011.pdf)

<sup>73</sup> *TV Licensing Telescope Report, 2012*  
[http://www.tvlicensing.co.uk/resources/library/BBC/MEDIA\\_CENTRE/TV\\_Licensing\\_Telescope\\_Report\\_2012.pdf](http://www.tvlicensing.co.uk/resources/library/BBC/MEDIA_CENTRE/TV_Licensing_Telescope_Report_2012.pdf)

<sup>74</sup> *TV Licensing Telescope Report, 2012*  
[http://www.tvlicensing.co.uk/resources/library/BBC/MEDIA\\_CENTRE/TV\\_Licensing\\_Telescope\\_Report\\_2012.pdf](http://www.tvlicensing.co.uk/resources/library/BBC/MEDIA_CENTRE/TV_Licensing_Telescope_Report_2012.pdf)

according to data from TV Licensing. In addition, sales estimates from GfK show that in Q1 2012, over a third (35%) of sales were for 'super-large' (33" to 42") or 'jumbo' screens (43" and over). In comparison, in 2001 the equivalent figures for super-large and jumbo TV screens was just 1%.

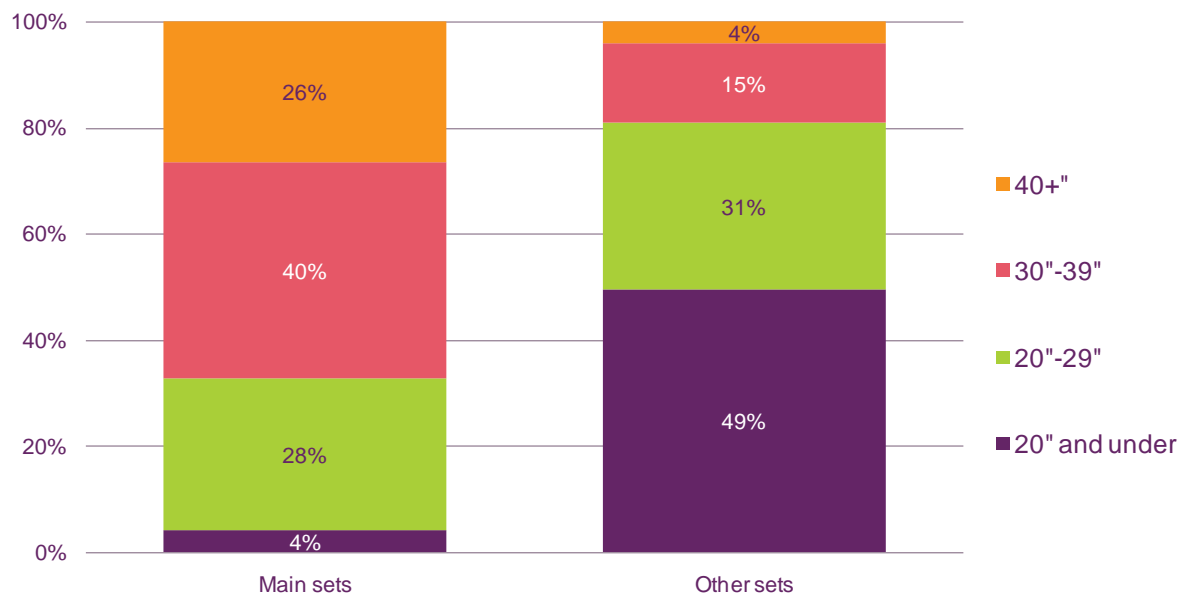
**Figure 2.12 Percentage of TV sets sold, by screen size: 2001 – Q1 2012**



Source: GfK sales data estimates. \*2012 data represents Q1 only.

Again, it is the main TV set that has benefited most from these enhancements. In 2011, half (49%) of other sets in the home had screen sizes of 20" or less, while a quarter (26%) of main sets had screen sizes of 40" and over, and a further 40% were between 30" and 39" (compared 15% of other sets) (Figure 2.13).

**Figure 2.13 Main sets vs. other sets, by screen size: 2011**



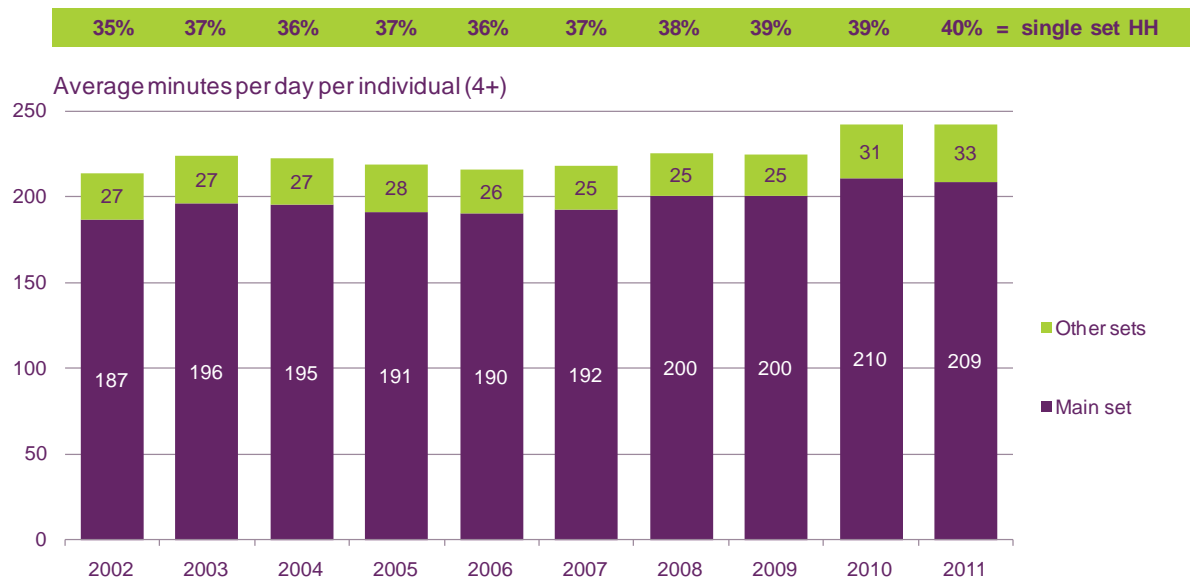
Source: BARB Establishment Survey. Annual network report, Q2 2011. Data based on all UK TV households (= 98% of all UK households)

## The main TV set in the home remains the dominant device for TV viewing

The continued popularity of viewing on the TV set is concentrated around the 'main' TV set (typically, the set in the living room). This is against a backdrop of an increase in the proportion of homes with a single TV set, rising from 35% of all UK TV households in 2002 to 40% in 2011<sup>75</sup>.

In 2002 average daily viewing on the main set stood at 187 minutes. By 2011 this had increased to an average 209 minutes per day, compared to 33 minutes spent watching on other sets.

**Figure 2.14 Total TV viewing, main sets vs. other sets: 2002 - 2011**



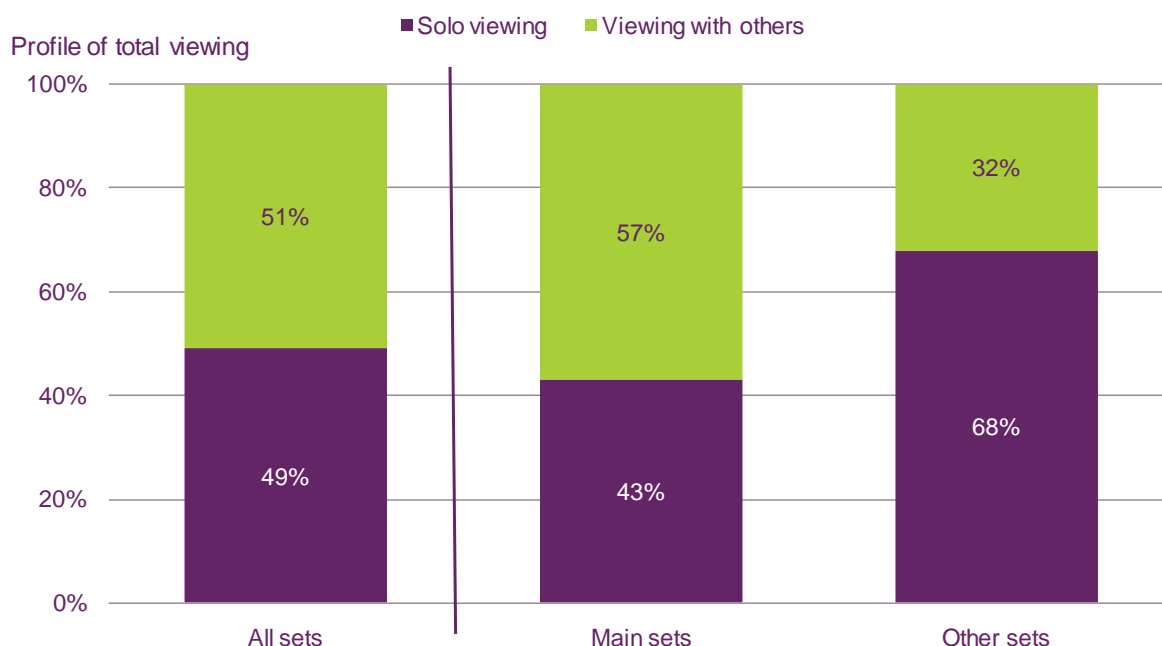
Source: BARB, all individuals (4+), all homes. BARB Establishment Surveys – Annual Network Q2 reports. Note: i) New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. ii) 'Main set' defined as set located in the living room. 'Other sets' defined as all other TV sets in the home.

## The majority of viewing on the main set is shared with other people

In 2011, around one-third of viewing on other sets was shared viewing (i.e. where more than one person was viewing) but the vast majority - around two-thirds (68%) - was solo viewing (i.e. viewers watching on their own). Conversely, the majority of viewing on main sets (57%) was a shared viewing experience, and 43% was solo viewing (Figure 2.15).

<sup>75</sup>BARB Establishment Surveys – Annual Network Q2 reports.

**Figure 2.15 Solo viewing and shared viewing in multi-set households – main sets vs. other sets: 2011**



Source: BARB, all individuals (4+). Based on multi-set households

The television set continues to evolve and recent developments include the launch of smart TVs, which allow the user to connect their TV to the internet in order to benefit from a range of value-added services, such as catch-up TV and apps.

### 2.1.2 Connected TVs

Connected TV includes a number of developing technologies that use a broadband connection to deliver catch-up, on-demand and over-the-top content, as well as applications and interactive features, to television screens. The integration of broadcast and online services is a relatively recent phenomenon, although some degree of internet functionality has been available on selected televisions and set-top boxes since 2005. The definitions set out below are intended to provide clarity and consistency throughout this section, which examines consumer attitudes to this emerging technology.

#### Definitions

##### Smart TV

'Smart TV' refers to a standalone television set with inbuilt internet functionality. Users connect a broadband router directly into the TV. Smart TVs are produced by consumer electronics manufacturers like Samsung, Sony, Panasonic and LG. This term has not been established as industry-wide usage, but will be treated here as a generic name for all such devices.

##### Internet-enabled TV

'Internet-enabled TV is an umbrella term covering any television set connected to the internet via a third-party device, such as a set-top box, a games console or a laptop/PC. The set-top box might be provided with services like Sky Anytime, Virgin TiVo or BT Vision. Games consoles commonly used include Microsoft's Xbox Live, Sony's Playstation 3 and the Nintendo DSi. Laptops/PCs are connected through a cable run from an output port to an input port on a compatible TV.

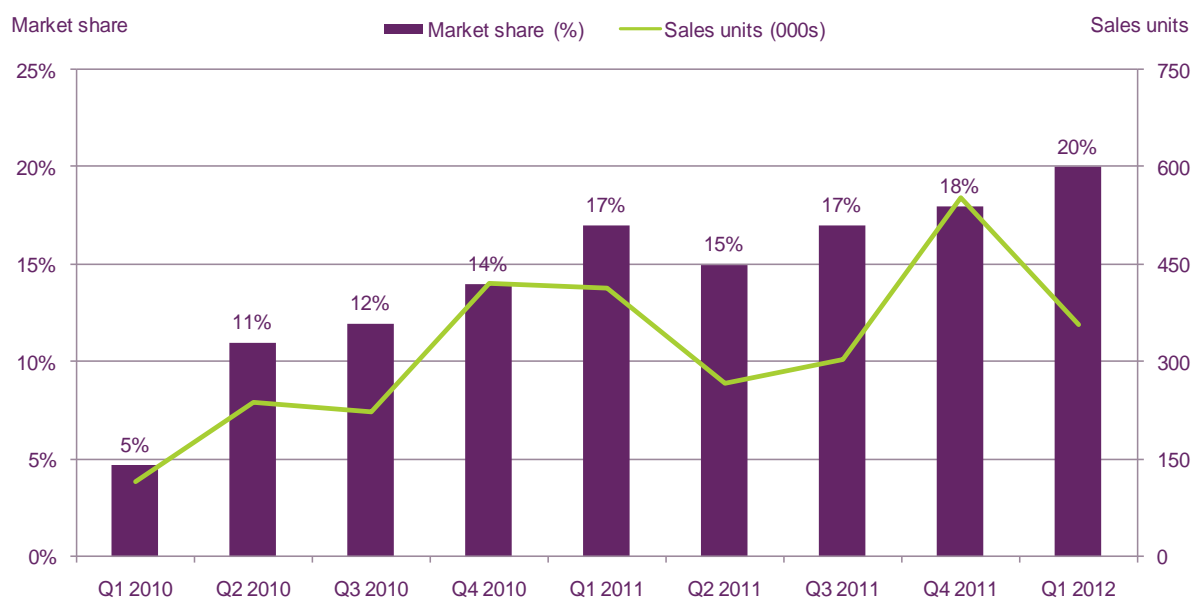
## Five per cent of UK households have a smart TV

According to Ofcom's *Technology Tracker* (Q1 2012), 5% of UK TV households had a smart TV.<sup>76</sup> However, smart TVs are relatively new devices, and currently appear to be less popular than other forms of internet-enabled TV. Ofcom's *Media Tracker* (2011) measures different methods of viewing content from the internet on a TV set, and shows that 11% of respondents had connected their set to the internet via a games console. Additionally, 11% of respondents had connected their TV to the internet via a laptop/PC.<sup>77</sup> Redshift Strategy has analysed the platform data and estimates that connected set-top boxes had a penetration rate of 15% in the UK in May 2012.<sup>78</sup>

## Smart TVs comprise a fifth of all TV sets sold, with sales more than doubling since 2010

Smart TV sales and the smart TV share of the television market have both increased substantially over the past two years (Figure 2.16). Between Q1 2010 and Q1 2012, smart TV sales increased by 211%; from 115,000 units per quarter to 358,000 units per quarter. These figures are affected by seasonal fluctuations, with households more likely to buy a new TV set around Christmas. The overall trend is nevertheless one of growth, reflected in the 15 pp increase in market share of televisions sold, from 5% in Q1 2010 to 20% in Q1 2012. The total sales figures show that 2.9 million smart TVs have been sold in the UK since Q1 2010.

**Figure 2.16 Smart TV sales and market share**



Source: GFK

<sup>76</sup> Source: Ofcom *Technology Tracker*, fieldwork conducted by Saville Rossiter-Base, January to February 2012. Base: Adults aged 16+ with a TV in the household (3713).

<sup>77</sup> Source: Ofcom *Media Tracker*, fieldwork conducted by BDRC Continental, October to November 2011. Base: Adults aged 16+ (890).

<sup>78</sup> Source: Redshift Strategy analysis based on platform data, May 2012.

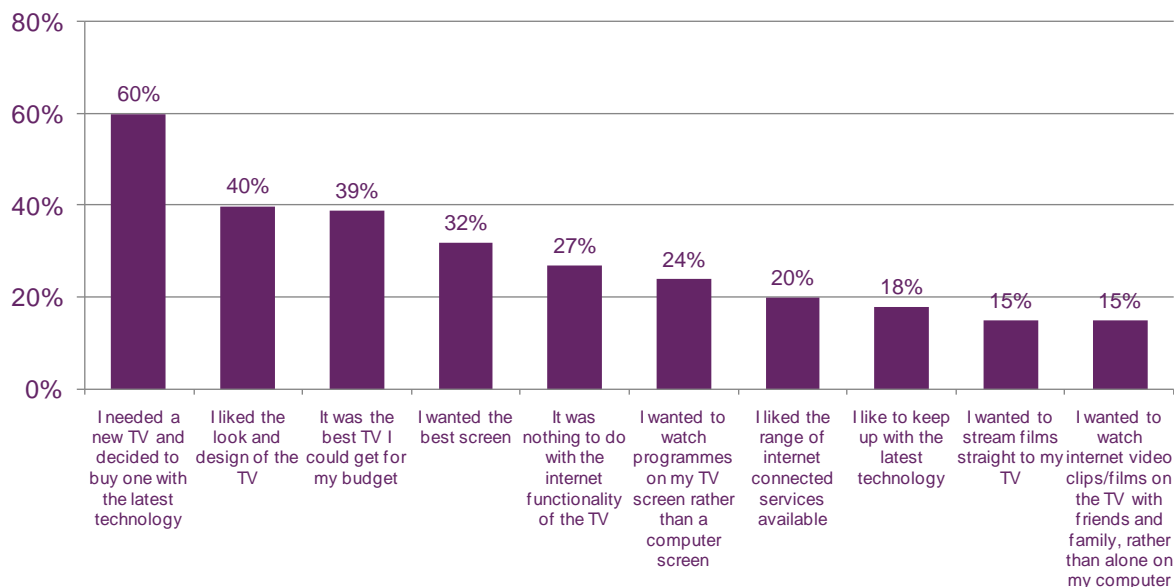
## Internet functionality is not a key reason for purchasing a smart TV

In March and April 2012, Ofcom conducted new research on the use of connected devices. This allows us to look in some detail at the behaviour and attitudes of early adopters of smart TVs.

The research shows that most smart TV owners did not prioritise internet functionality when buying their TV (Figure 2.17). The most commonly-cited reasons for their purchase relate to wanting the best product with the latest technology, the design of the set, and the quality of the screen. Sixty per cent of respondents said that they simply chose the most up-to-date product available, while 40% said that they liked the look of the set and 32% said that they wanted the best screen. Furthermore, 27% of respondents said that their decision was not related to the internet functionality of the TV.

However, the research shows that some consumers were attracted by features specific to smart TVs. Twenty per cent of respondents said that the range of online services available was a factor motivating their choice. Fifteen per cent of respondents wanted to stream films and programmes straight onto their TV, and the same proportion said that the size of the screen, compared to that of a computer, would allow them to view internet content more comfortably in a group.

**Figure 2.17** Reasons people buy a smart TV



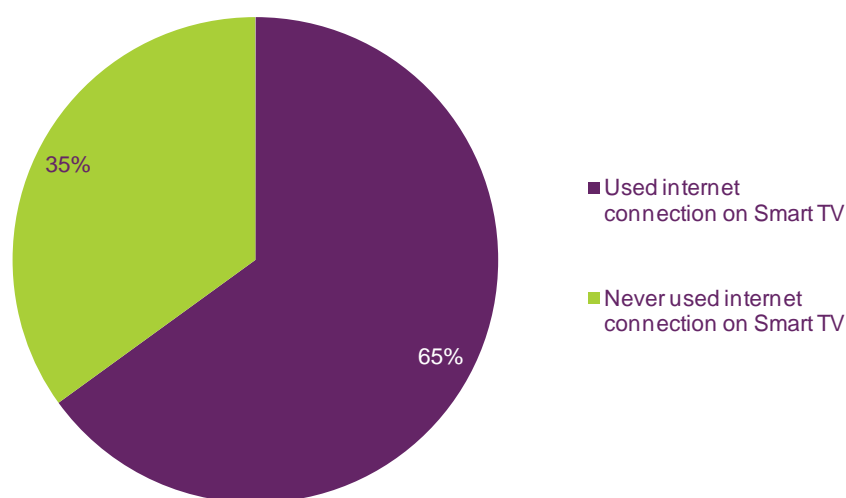
Source: Ofcom Connected Devices Survey, fieldwork conducted by Populus, March to April 2012  
 Q.D6 Why did you buy your smart TV? (Multicoded) Base: All respondents with a smart TV (252)

## Two-thirds of owners have used the internet connection on their smart TV

Sixty-five per cent of smart TV owners said they had used the internet connection on their smart TV (Figure 2.18). This indicates that the majority of consumers purchasing a smart TV are likely to take advantage of its internet functionality, even though this may not have been their main reason for buying one. However, a third (35%) of owners claim not to have connected their smart TV to the internet.



**Figure 2.18 Consumers' use of internet connection on smart TVs**



Source: Ofcom Connected Devices Survey, fieldwork conducted by Populus, March to April 2012 Q.D7 Have you ever used the internet functionality on your smart TV? Base: All respondents with a smart TV (252)

### Smart TVs and internet-enabled TVs are used most widely for watching catch-up TV

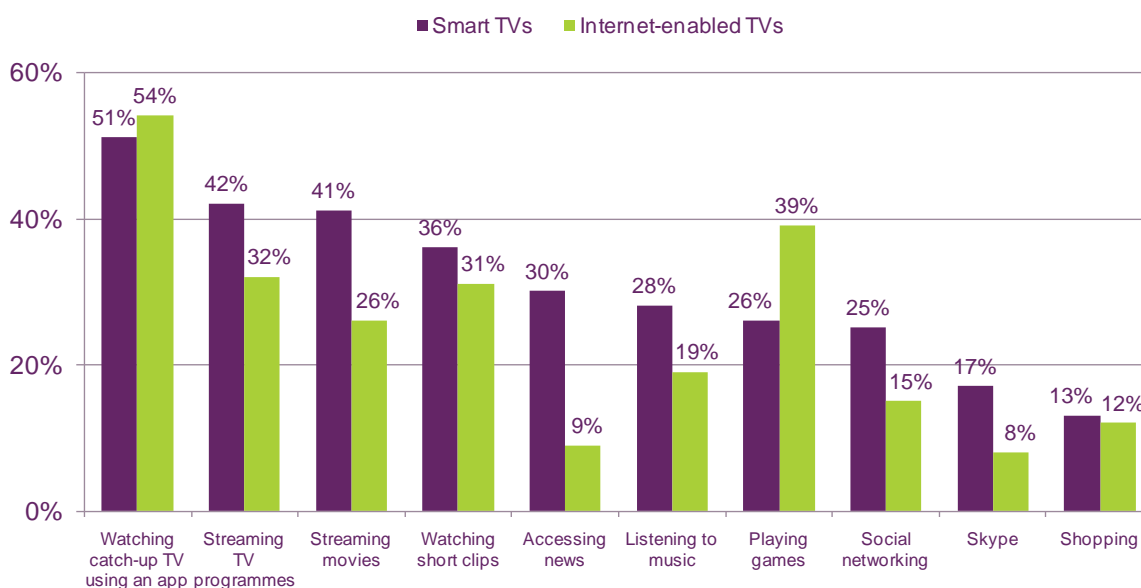
Ofcom's new research allows us to compare behaviour on smart TVs and internet-enabled TVs (Figure 2.19). The most widely-undertaken activities on smart TVs were watching catch-up TV and streaming programmes and movies. Among those who had used the internet connection on their set, 51% said they had watched catch-up TV, 42% had streamed programmes, and 41% had streamed films. Audio-visual content is also popular with users of internet-enabled TVs. Among those who had connected their TV to the internet via a third-party device, 54% said they had watched catch-up TV, 32% had streamed programmes, and 26% had streamed films. Activities like social networking and online shopping were much less widely undertaken, both on smart TVs (25% and 13% of users respectively) and internet-enabled TVs (15% and 12% of users respectively). These figures contrast with the proportion of people with a broadband connection who access social networking sites (64%) or shop online (74%) on a laptop/PC.<sup>79</sup>

The evidence suggests that consumers are using different devices to meet different needs. Smart TVs and internet-enabled TVs are perhaps seen as better suited to activities like watching catch-up TV. This reflects the similarity of the viewing experience to that of conventional television, with the internet functionality of the set used to give greater choice and control than with linear services. Conversely, smart TVs and internet-enabled TVs might be seen as less well suited to activities usually undertaken individually or privately, such as online shopping and social networking.

However, connected-TV technology is still developing. Applications like Zeebox use a second screen, such as a tablet or a smartphone, to allow engagement with interactive features, without disrupting content on the main screen. This kind of innovation could potentially encourage a change in habits among users of smart TVs and internet-enabled TVs.

<sup>79</sup> Source: Ofcom *Technology Tracker*, fieldwork conducted by Saville Rossiter-Base, January to February 2012. Base: Adults aged 16+ with a broadband connection at home or elsewhere (2726).

**Figure 2.19 Activities undertaken on smart TVs and internet-enabled TVs**

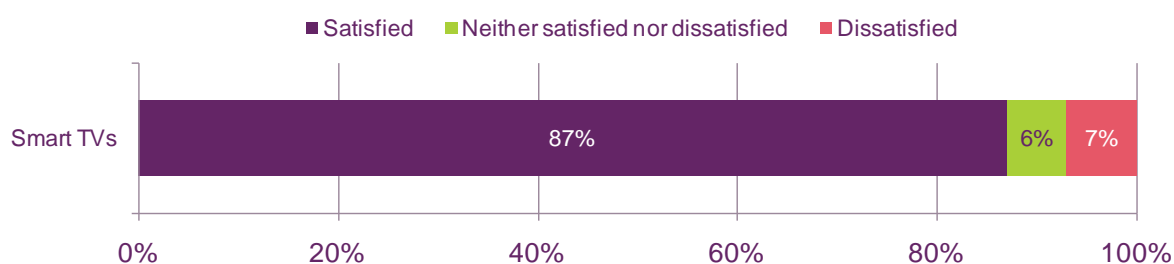


Source: Ofcom Connected Devices Survey, fieldwork conducted by Populus, March to April 2012 (1) Q.D8 What do you use the internet functionality on your smart TV for? (Multicoded) (2) Q.E2 When you connect your TV to the internet, what do you tend to do online? (Multicoded) Base: (1) All respondents who have used the internet functionality of their smart TV (165) (2) All respondents with an internet-enabled TV (250)

### There are high levels of satisfaction with smart TVs

Ofcom’s research indicates that levels of satisfaction are high among users of smart TVs. Eighty-seven per cent of smart-TV users said that, taking all things into account, they were satisfied with their smart TV. Their responses might of course reflect satisfaction with factors unrelated to the internet functionality of the set.

**Figure 2.20 Levels of satisfaction with smart TVs**



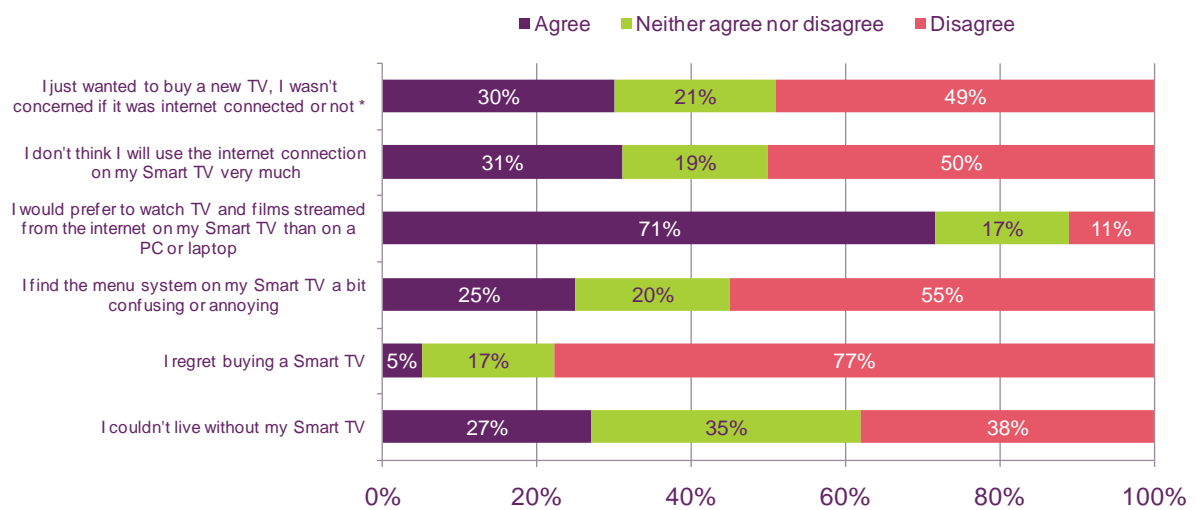
Source: Ofcom Connected Devices Survey, fieldwork conducted by Populus, March to April 2012. Q.D2 Taking all things into account, how satisfied or dissatisfied are you with your smart TV?

Among those who had used the internet connection on their smart TV, 30% of respondents agreed they had not been concerned about internet functionality when making their purchase. However, 49% of respondents disagreed. When this statement was presented to all owners of smart TVs, 47% of respondents agreed and 35% disagreed. These results appear to support the evidence above; that while a significant proportion of the owners surveyed for the research were not primarily attracted by internet functionality (Figure 2.17),

a clear majority had subsequently used it (Figure 2.18). Furthermore, 50% of those who had done so thought they would continue to use this feature.

Figure 2.21 reveals users' generally positive attitudes towards their smart TVs. Only 5% of respondents said that they regretted buying one. Seventy-one per cent of respondents agreed that they preferred to watch content from the internet on this device than on a laptop/PC. While creating a user interface which seamlessly integrates content from different sources is one of the key challenges for designers of smart TVs, 55% of respondents disagreed that the menu system on their set was confusing or annoying. However, users were divided over how essential this device is for them. Presented with the statement: "I couldn't live without my smart TV", 27% of respondents agreed, 38% disagreed and 35% neither agreed nor disagreed.

**Figure 2.21 Attitudes towards smart TVs**



Source: Ofcom Connected Devices Survey, fieldwork conducted by Populus, March to April 2012  
 Q.D16 To what extent do you agree or disagree with the following statements? Base: All respondents who have used the internet functionality of their smart TV (165) Note: \* Among all respondents with a smart TV (252), 47% agreed, 35% disagreed and 17% neither agreed nor disagreed



## 2.2 The TV and audio-visual industries

### 2.2.1 Introduction

This section examines some of the characteristics of the UK's audio-visual sector during 2011. It focuses on a range of metrics from the broadcast television industry and from those companies delivering audio-visual content over the internet.

Key points in this section include:

- **The UK television industry generated £12.3bn in revenue during 2011, an increase of £579m (5%) on 2010 in nominal terms**, driven by an increase in the advertising market, coupled with continued growth in subscription revenue (Figure 2.22).
- **Following the decline in 2009, net television advertising revenues (NAR) have slowly recovered**. In 2011 overall NAR increased for all categories of commercial TV broadcasters, giving a total year-on-year increase of 2.1% to £3.6bn in nominal terms.
- **Spend on content by all UK TV channels in 2011 reached £5.5bn, up by 1.6% year on year in nominal terms**. Sports and film channels spent £1.7bn on network programmes, the highest relative increase over the period (12%), accounting for 32% of the total spend.
- **Spend on first-run originated programming for the five main PSB channels decreased in nominal terms; by 6% to £2,506m**. This continued a trend dating back to 2006, when spend on first-run originated output was £3,126m (an average decline of 4% over the five-year period to 2011). For more information, see Ofcom's *Public Service Broadcasting Annual Report* published in June 2012<sup>80</sup>.
- **The biggest relative reduction in hours in peak time among the five main PSB channels was in sport (down 31% on last year)**. This can be attributed in part to the fact that 2010 was a big sporting year, with the Football World Cup in South Africa in June 2010 and the Vancouver Winter Olympics.
- **Commercial multichannel broadcasters in the eight mainstream genres spent £2.6bn on programming in 2011, a 13% year-on-year increase**. At £1.5bn, sports programming represented more than half (56%) of the total multichannel spend, up 15% year on year.
- **Online TV revenue in the UK has increased significantly in the past five years, from £11m in 2006 to £229m in 2011**. Year on year, the market grew by a further 51%, with the free-to-view business model the principal contributor (through advertising income) to overall online TV revenues, accounting for £134m in 2011.

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<sup>80</sup> <http://stakeholders.ofcom.org.uk/broadcasting/reviews-investigations/public-service-broadcasting/annrep/psb12/>

## 2.2.2 Television industry revenue

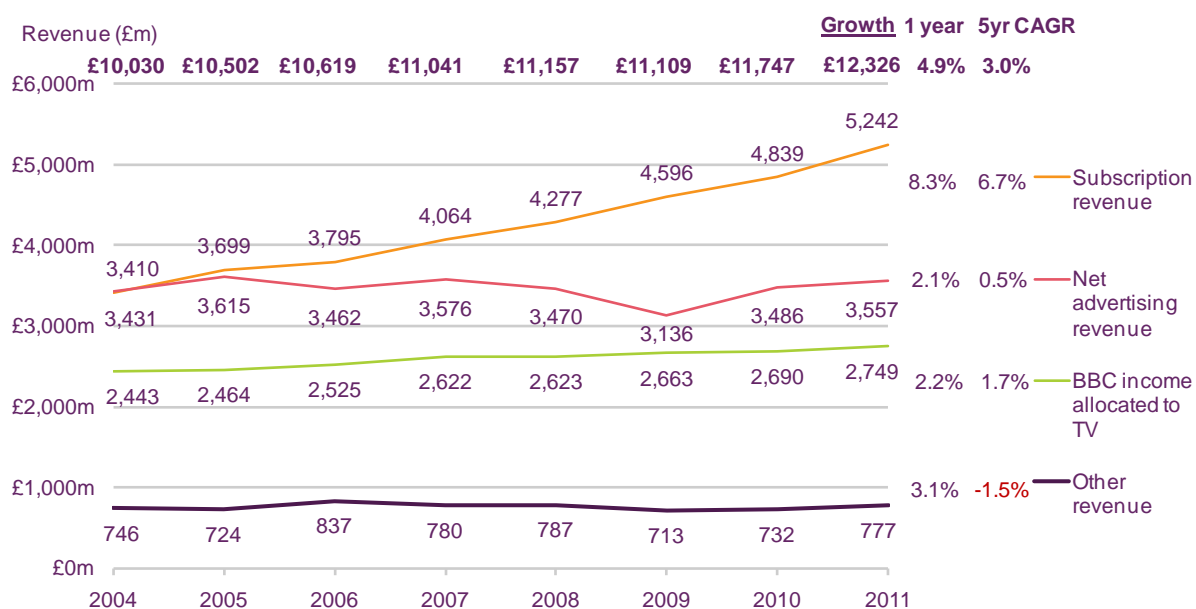
### The UK television industry generated £12.3bn in revenue in 2011

The UK television industry generated £12.3bn in revenue during 2011, an increase of £579m (5%) on 2010 in nominal terms, driven by an increase in the advertising market, coupled with continued growth in subscription revenue (Figure 2.22).

TV broadcasters experienced a 2.1% increase in net advertising revenues (NAR) in 2011, up £72m year on year, to £3.6bn. The advertising industry is showing steady growth, following the sharp decline in 2009 as a result of the economic downturn. Growth in pay-TV subscriber revenue also increased year on year; by 8.3% to £5.2bn in 2011 – the highest level recorded since Ofcom began tracking this data.

Ofcom estimates that the BBC spent £2.7bn on its television services in 2011, an increase of 2% on 2010, although its share of total industry revenue remained broadly consistent, at 22%

**Figure 2.22 Total TV industry revenue, by source**

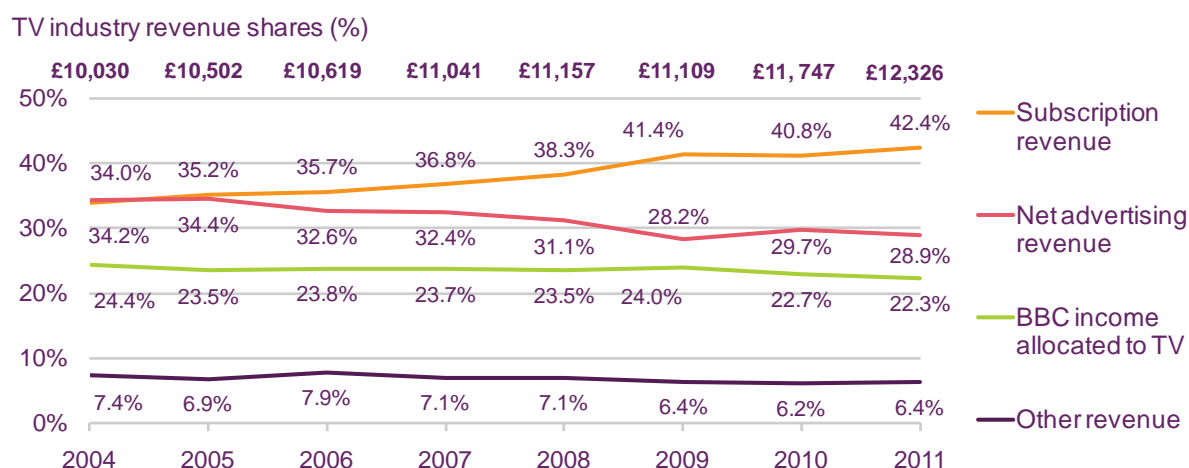


Source: Ofcom/broadcasters. Note: Figures expressed in nominal terms and replace previous Ofcom revenue data for TV industry, owing to restatements and improvements in methodologies. 'Subscription revenue' includes Ofcom's estimates of BSkyB, Virgin Media, BT Vision, TalkTalkTV, Setanta Sports (until its closure), ESPN and Top Up TV television subscriber revenue in the UK (Republic of Ireland revenue is excluded). It also excludes revenue generated by broadband and telephony. 'Other' includes TV shopping, sponsorship, interactive (including premium-rate telephony services), programme sales and S4C's grant from the DCMS. The BBC re-stated licence fee revenue in 2008. Totals may not equal the sum of the components due to rounding.

Among the four main TV revenue sources, the share generated through advertising (Figure 2.23) decreased by 0.8 percentage points; from 29.7% in 2010 to 28.9% in 2011. After a small decline in 2010, pay-TV subscriptions' share of TV industry revenue increased by 1.6 percentage points to 42.4% in 2011. The gap between the share of TV industry revenue generated by advertising versus subscription revenue widened further in 2011, by 2.4 percentage points.

BBC expenditure on TV services as a percentage of total TV industry revenue has been broadly stable since 2004, falling a little in 2011 (0.4 pp) to 22.3%.

**Figure 2.23 TV industry revenues, by share**



Source: Ofcom/broadcasters. Note: Figures expressed in nominal terms and replace previous Ofcom revenue data for TV industry, owing to restatements and improvements in methodologies. 'Subscription revenue' includes Ofcom's estimates of BSkyB, Virgin Media, BT Vision, TalkTalkTV, Setanta Sports (until its closure), ESPN and Top Up TV television subscriber revenue in the UK (Republic of Ireland revenue is excluded). It also excludes revenue generated by broadband and telephony. 'Other' includes TV shopping, sponsorship, interactive (including premium-rate telephony services), programme sales and S4C's grant from the DCMS. The BBC re-stated licence fee revenue in 2008. Totals may not equal the sum of the components due to rounding.

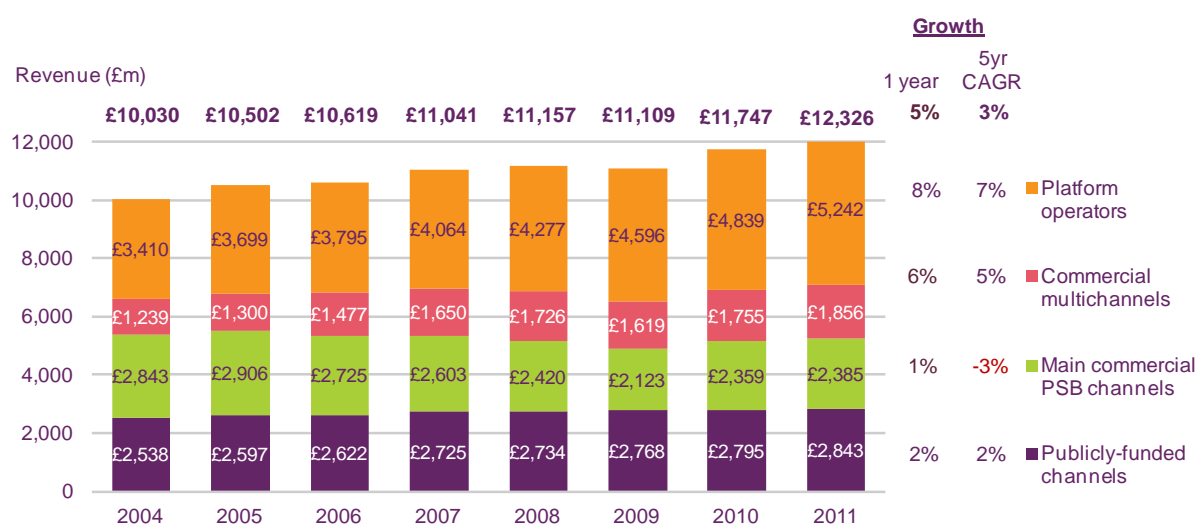
### Revenue generated by TV channels increased by 5% in 2011 to £12.3bn

Figure 2.24 shows that revenues for the main commercial PSB channels and multichannels combined increased for the second consecutive year (in nominal terms), following reductions across both sectors during 2009.

The platform operators experienced the largest year-on-year increase, rising by 8% (£403m) in 2011 to £5,242m. The main PSB channels' revenue (Channel 3 (plus ITV Breakfast), Channel 4, Channel 5 and S4C) increased only marginally; by £26m (1%) in 2011 to £2,385m – considerably below their high point of £2,906m in 2005.

Publicly-funded channels, which include Ofcom's estimate of BBC spend on TV output and S4C's grant from the Department for Culture, Media and Sport, accounted for £2,843m of revenue.

**Figure 2.24 Total TV industry revenue, by sector**



Source: Ofcom/broadcasters. Note: Figures are nominal. Main commercial PSB channels comprise ITV/ITV Breakfast, STV, UTV, Channel Television, Channel 4, Channel 5 and S4C. Commercial multichannels comprise all multichannels including those owned by ITV1, Channel 4 and Channel 5. Publicly-funded channels comprise BBC One, BBC Two, the BBC’s portfolio of digital-only television channels and S4C. S4C is listed under publicly-funded and commercial analogue channels because it has a mixed advertising and public funding model. The BBC re-stated licence fee revenue in 2008. Totals may not equal the sum of the components due to rounding.

### Television advertising revenues continued to grow during 2011

Following the decline in 2009, advertising revenues have slowly recovered. In 2011, overall NAR increased for all categories of commercial TV broadcaster, giving a total year-on-year increase of 2 % to £3.6bn.

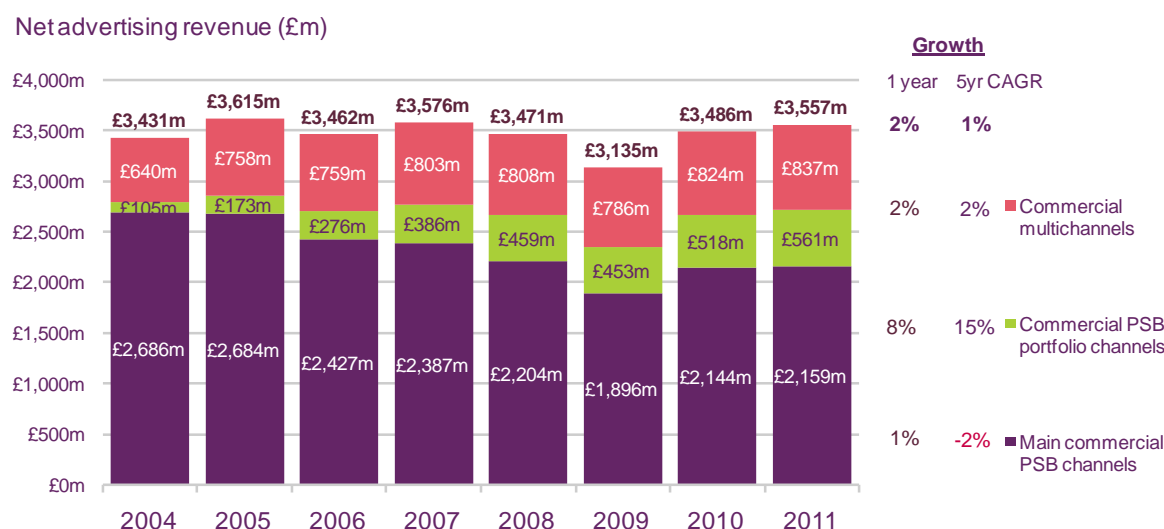
The main commercial PSB channels continue to generate a large proportion of all advertising income. In 2011, they raised £2,159m (Figure 2.25) – up 1% (or £15m) year on year. However, the resurgence in advertising revenue in 2011 mainly benefited the commercial multichannels and the PSB portfolio channels.

Among the commercial PSBs’ portfolio channels (such as ITV2, E4 and 5\*), advertising revenue rose by 8.3% year on year to £561m, the highest relative increase across the categories in Figure 2.25; this may be explained by the continuing adoption of Freeview in the face of digital switchover.

The commercial multichannels also experienced growth in income generated from advertising, with revenues increasing by £13m or 1.6% since last year.



**Figure 2.25 TV net advertising revenues, by source**



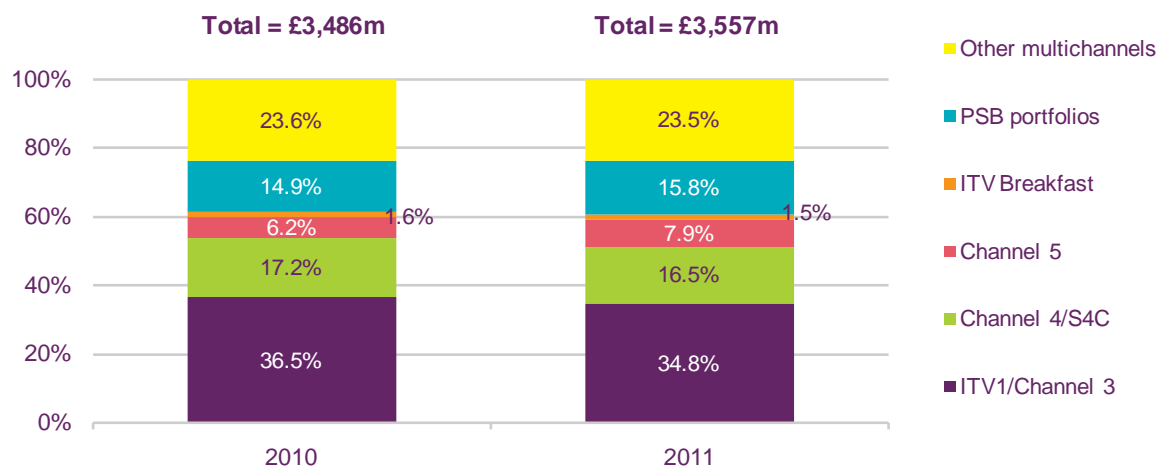
Source: Ofcom/broadcasters. Note: Figures expressed are in nominal terms and replace previous data published by Ofcom. Main commercial PSB channels comprise ITV1, STV, UTV, Channel Television, ITV Breakfast, Channel 4, Channel 5 and S4C; Commercial PSB portfolio channels include, where relevant, ITV2, 3, 4, CiTV, E4, More 4, Film 4, 4Music, Five USA and 5\* (and their '+1' channels). For previous years closed channels have also been included. Sponsorship revenue not included. Totals may not equal the sum of the components due to rounding.

Share of TV advertising across the broadcasters showed mixed results. With the exception of Channel 5, the main PSBs all saw their share of TV advertising income decrease in the past year. This was marginally offset as the commercial PSB portfolio channels' NAR market share increased by 1 percentage point on 2010. Channel 5 saw an increase of 2 percentage points.

Non-PSB multichannel broadcasters saw a 0.1 percentage point decrease; from 23.6% in 2010 to 23.5% in (Figure 2.26). ITV1/Channel 3 licences experienced the largest decrease in share in 2011 (down by 1.7 percentage points year on year to 34.8%) while ITV Breakfast maintained its share of advertising.

**Figure 2.26 TV net advertising revenue market shares: 2010 - 2011**

Proportion of NAR by broadcaster (%)



Source: Ofcom/broadcasters. Note: ITV1/Channel 3 includes ITV1, STV, UTV and Channel Television.

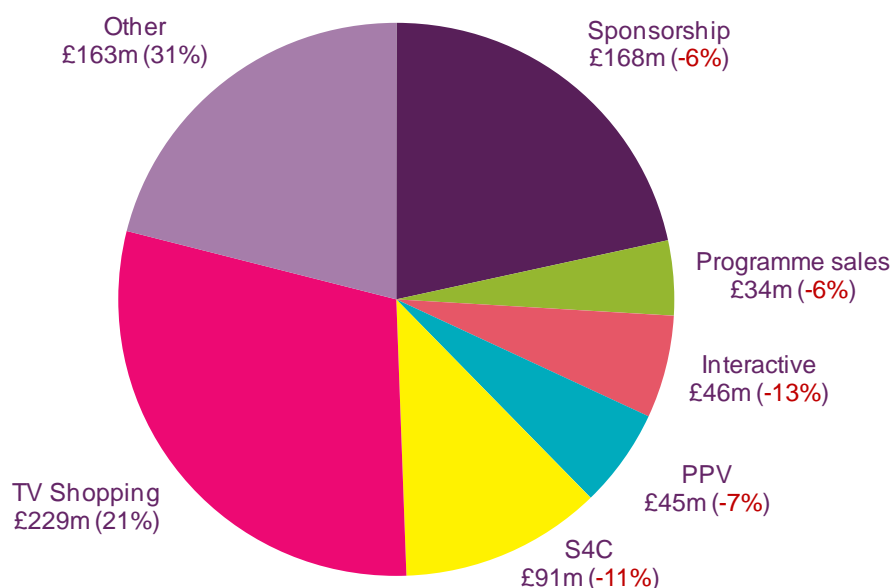
### 2.2.3 Other TV revenue

**Broadcaster revenue raised from other sources in 2011 stood at £777m, up by 6% on last year.**

Revenue from sources other than subscription income, advertising revenue and licence fees stood at £777m in 2011, up by 6% year on year. Revenue earned by television shopping channels accounted for £229m, up by 21% from 2010. This accounts for a sizeable 30% of the total. Sources of 'other revenue' accounted for 21% of the total and were 31% up on last year. Revenue generated from sponsorship deals was down by 6% on 2010 and generated £168m (22% of the total).

**Figure 2.27 Breakdown of other / non-broadcast revenue: 2011**

Total non-broadcast revenue = £777m (6%)



Source: Ofcom/broadcasters. Note: Percentage figures in brackets represent year-on-year change for total non-broadcast revenue versus 2010. TV shopping represents aggregate operating margin of products sold via television. Totals may not equal the sum of the components due to rounding. Owing to the nature of these revenue components, annual changes may be a function of a higher number of broadcaster returns being made by the time of writing, rather than material changes in the contributions that these revenue components are making to total industry income.

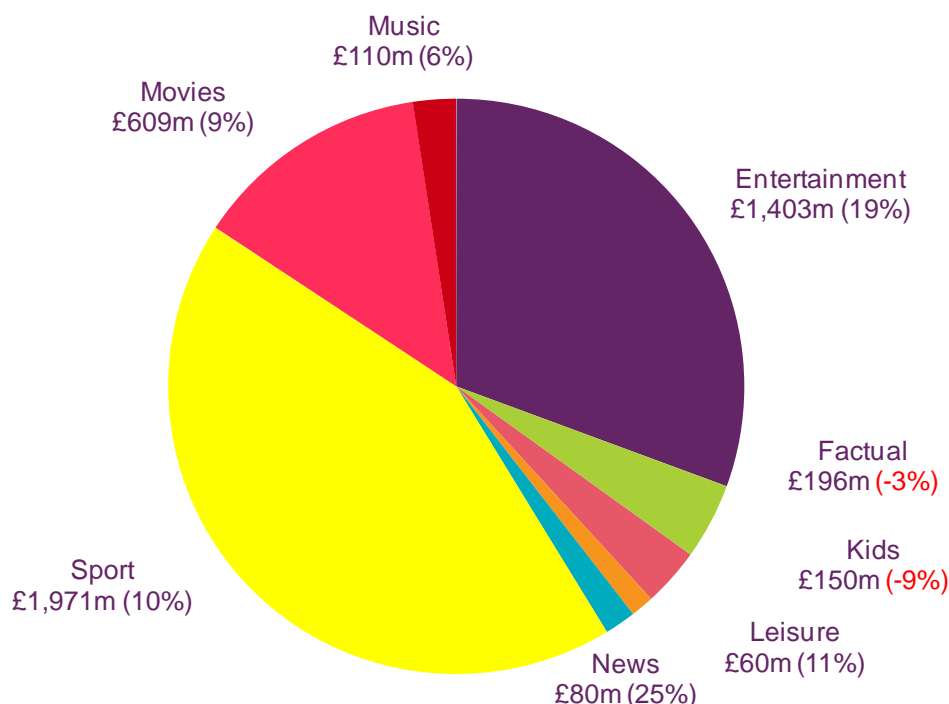
## 2.2.4 Revenue among multichannel genres

### Revenue among key multichannel genres continued to grow in 2011

Most of the multichannel services in mainstream genres experienced revenue growth in 2011, with total income reaching £4.6bn, an increase of nearly £470m (11%) since last year. Sports remained the genre that generated the most revenue in 2011, up by 10% to almost £2bn in 12 months. Entertainment, the second-largest genre by revenue, also saw a 19% uplift in revenues; to £1.4bn. The combined totals of Sports and Entertainment account for nearly three-quarters of the total revenue generated by multichannel broadcasters (73%). While News experienced the biggest relative year-on-year increase, taking the total up to £80m, Children's experienced the biggest proportional decrease in revenue - down by 9%. After a 22% decline in 2010, Leisure channels' revenues increased by 11% in 2011, to £60m.

**Figure 2.28 Revenue generated by multichannel broadcasters, by genre: 2011**

Total revenue = £4,580m across the eight genres included



Source: Ofcom/broadcasters. Note: Percentage figures in brackets represent year-on-year change for total revenue compared to 2010. The figures in this chart include all sources of revenue accruing to multichannels and are expressed in nominal terms. This includes those set out in Figure 1.22 plus wholesale subscriber payments from platform operators.

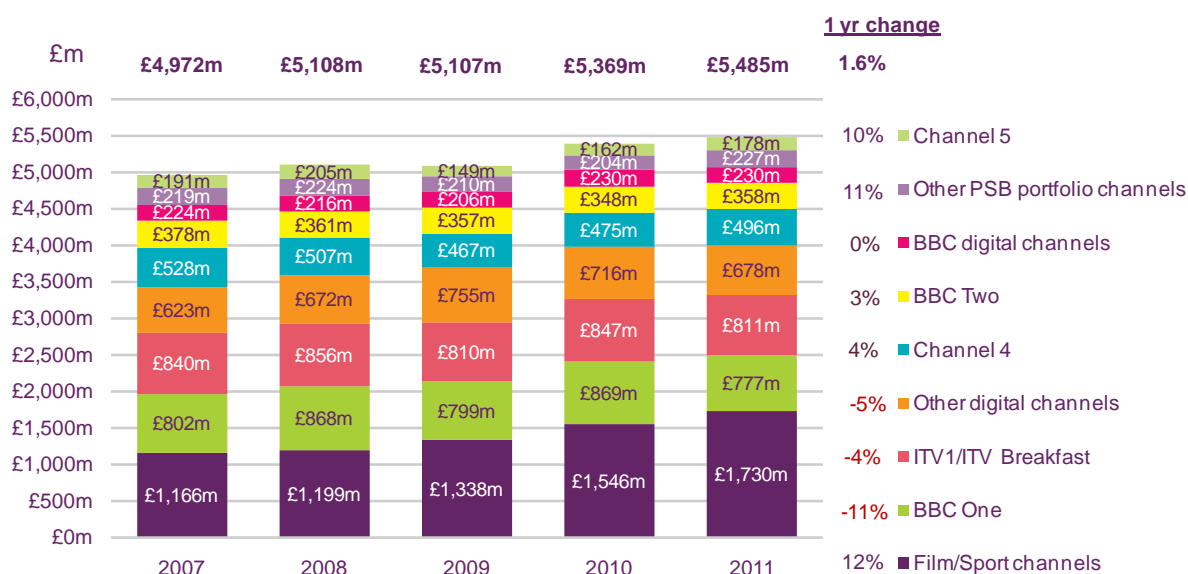
## 2.2.5 Spend on UK television programmes

### Broadcasters spent more on programmes in 2011

Spend on content by all UK TV channels in 2011 reached £5.5bn, up by 1.6% year on year in nominal terms. BBC One and ITV were the only PSBs to decrease spend on TV programming. BBC One spending fell the furthest over the year (down by 11%) and ITV spend fell by 4% over the same period. These decreases were offset by the increased spend on the PSB digital portfolio channels (excluding BBC digital channels) which increased 11% year on year. For the past two years Channel 5 has shown a steady increase in content spend, up 10% to £178m in 2011.

Spending by the non-PSB digital channels decreased in 2011, down 5% to £679m. Sports and Film channels spent £1.7bn on network programmes, demonstrating the highest relative increase over the period (12%) and accounting for 32% of the total spend.

**Figure 2.29 Spend on network TV programmes: 2007 - 2011**



Source: Ofcom/broadcasters. Note: Figures expressed in nominal terms. Figures do not include spend on nations and regions output. BBC digital channels includes BBC Three, BBC Four, BBC News Channel, BBC Parliament, CBBC and CBeebies (but not BBC HD). 'Other digital channels' include all genres (excluding Sports and Films). Programme spend comprises in-house commissions, productions, commissions from independents, spend on first-run acquired programmes, spend on rights and on repeats (originations or acquisitions).

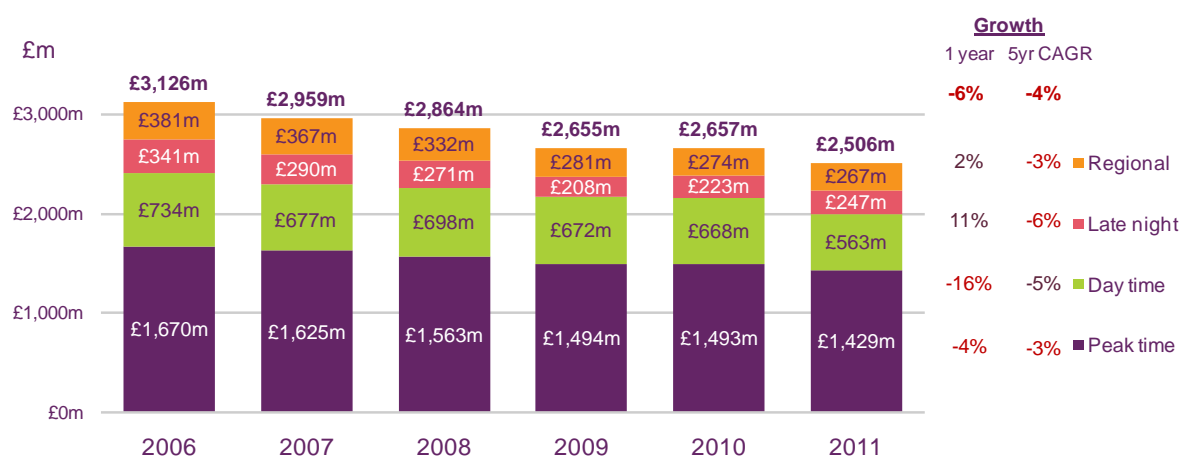
## 2.2.6 Spend on first-run originations by the five main PSB channels

### Spending on originations decreased in 2011, continuing several years of decline

Spend on first-run originated programming for the five main PSB channels decreased by 6% to £2,506m. This continues the gradual decline in spending dating back to 2006, when spend on first-run originated output was £3,126m (an average decline of 4% over the five-year period to 2011). However, the year-on-year decline is driven in part by the fact that 2010 figures include output related to the FIFA World Cup and Vancouver Winter Olympics - by comparison 2011 was a relatively quiet year for sport, with less spend on first-run originated content in this genre.

Output broadcast in the day-time and peak-time timeslots both reduced their spend, down £105m to £563m, and £64m to £1,429 respectively, in 2011. Late-night schedules increased their spend by 11% to £563m.

**Figure 2.30 Spend on first-run originated output on the five main networks**



Source: Ofcom/broadcasters. Note: Figures are expressed in 2011 prices. They include ITV Breakfast, spending in the nations and regions on English-language programming (and a small amount of Irish-language programmes) but do not include the BBC's digital channels

## 2.2.7 TV industry output

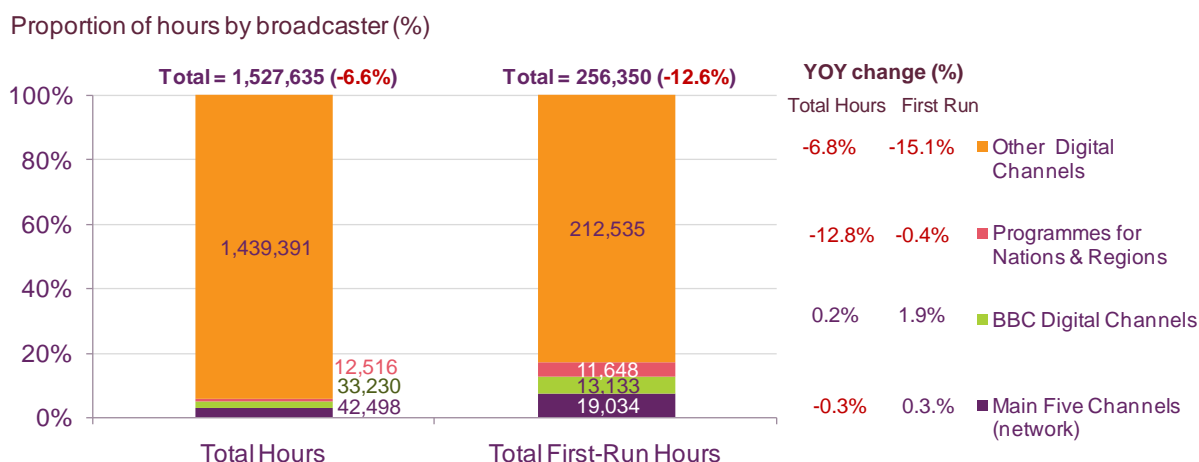
**Just over 3 million hours of television were broadcast in 2011, down 2% year on year.**

Across all categories of UK television channels, just over 3 million hours of broadcast output in 2011. Figure 2.31 narrows down this analysis, to focus on the broadcast hours of the PSB channels and digital channels included in the mainstream genres of Entertainment, Sports, Films, Factual, Children's, News, Leisure and Music. Those channels broadcast 1,527,635 hours in 2011, of which 256,350 (17%) were first-run originations, produced in-house or made by an external producer.

Among the five main PSB channels, 45% of the 42,498 total hours were first-run originations. The majority of programmes made by the BBC and Channel 3 licensees for the nations and regions (93% of 12,516 hours) were first-run originations; the comparable figure for the BBC's digital channels was 40% (of 33,230 hours).

The largest single component of first-run originations was for non-PSB multichannel services. They broadcast 1,439,391 hours of output in 2011, of which 212,535 (15%) were first-run originations.

**Figure 2.31 Total and first-run originated hours of output, all day: 2011**



Source: Ofcom/broadcasters. Note: Percentage figures in brackets represent year-on-year change. The first-run figures include in-house productions and external commissions, not first-run acquisitions. ITV Breakfast is included within the figures for the five main channels. 'Other digital channels' includes Entertainment, Sports, Film, Factual, Children's, News, Leisure and Music genres. Regional hours exclude Welsh and Gaelic-language programming but include a small proportion of Irish-language programmes.

## 2.2.8 Television output on the five main PSB channels

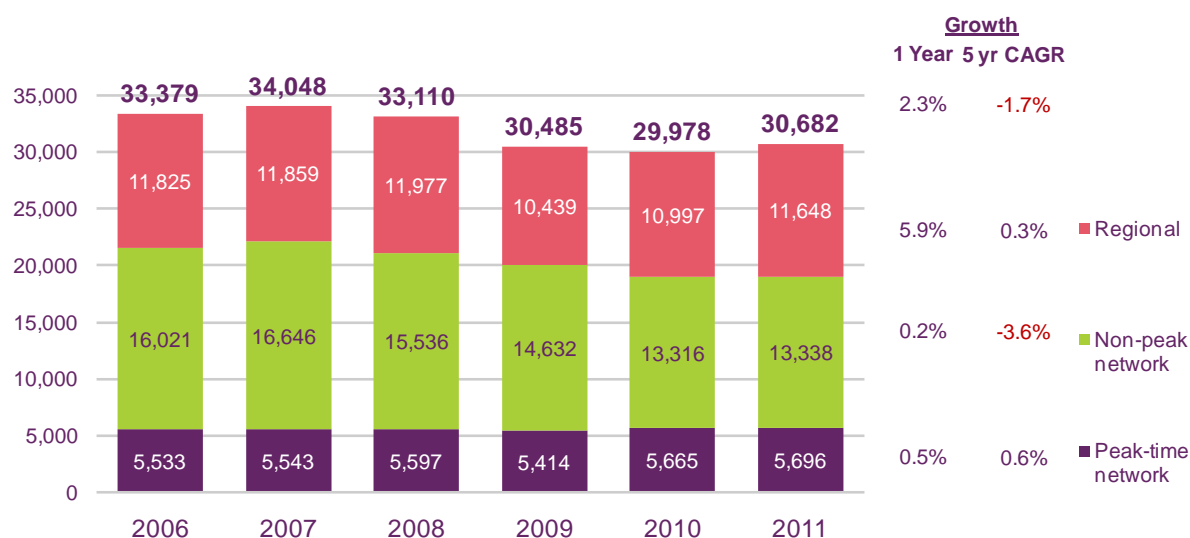
### Hours of first-run originated output up by 2% year on year

Although spending by the PSBs on originations decreased slightly in 2011 (down 6% to 2.5bn), total broadcast hours of originated programming increased (by 2%) to 30,682 hours.

There was a sharp decline in programming for the nations and regions in 2009 (down 13% from 2008). At 11,648 hours in 2011, nations' and regions' hours have increased steadily since 2009, as a result of STV opting out of the Channel 3 network schedule more frequently, and coverage of the Northern Ireland Assembly Elections.

Network hours of first-run originations in peak time (18:00 to 22:30) increased by 0.5% in 2011 to 5,696 hours. Meanwhile, first-run originations throughout the rest of the schedule of the main PSBs increased by 0.2%, to 13,338 hours.

**Figure 2.32 Hours of first-run originated output on the five main channels**



Source: Ofcom/broadcasters. Note: Figures include ITV Breakfast but do not include the BBC's digital channels. Regional hours exclude Welsh and Gaelic-language programming but do include a small proportion of Irish-language programmes.

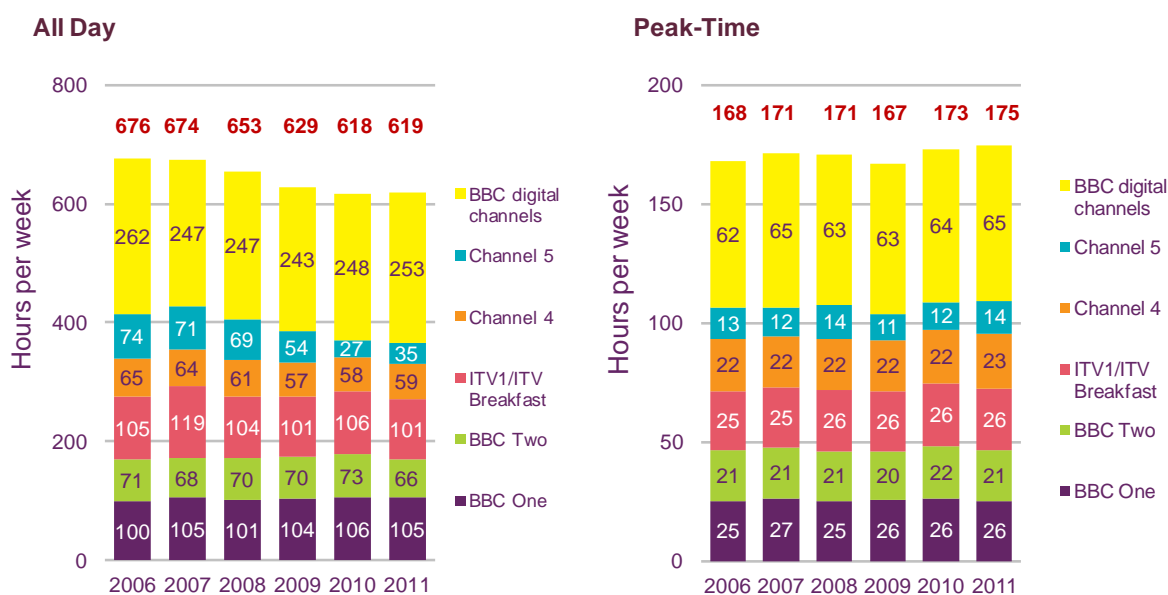
Figure 2.33 illustrates how many hours of first-run originations the PSB channels (including the five main PSB channels and the BBC's digital channels) broadcast, on average, per week.

In 2010, the figure stood at an average of 618 hours per week across the entire day (24 hours), down marginally from 629 in 2009. BBC One, BBC Two and ITV1 all showed year-on-year decreases, whereas Channel 4, Channel 5 and the BBC digital channels showed increases. BBC Two experienced the biggest relative decrease (-10%) while Channel 5 had the largest relative increase, at 30%.

In peak-time hours, first-run hours per week rose from 173 in 2010 to 175 in 2011, driven by the increase in Channel 5 hours (up 16% from 2010). BBC digital channels were also up 2% on last year while BBC One and BBC Two were down 2% and 6% respectively.



**Figure 2.33 First-run originated output by the PSBs per week, all day and peak time**

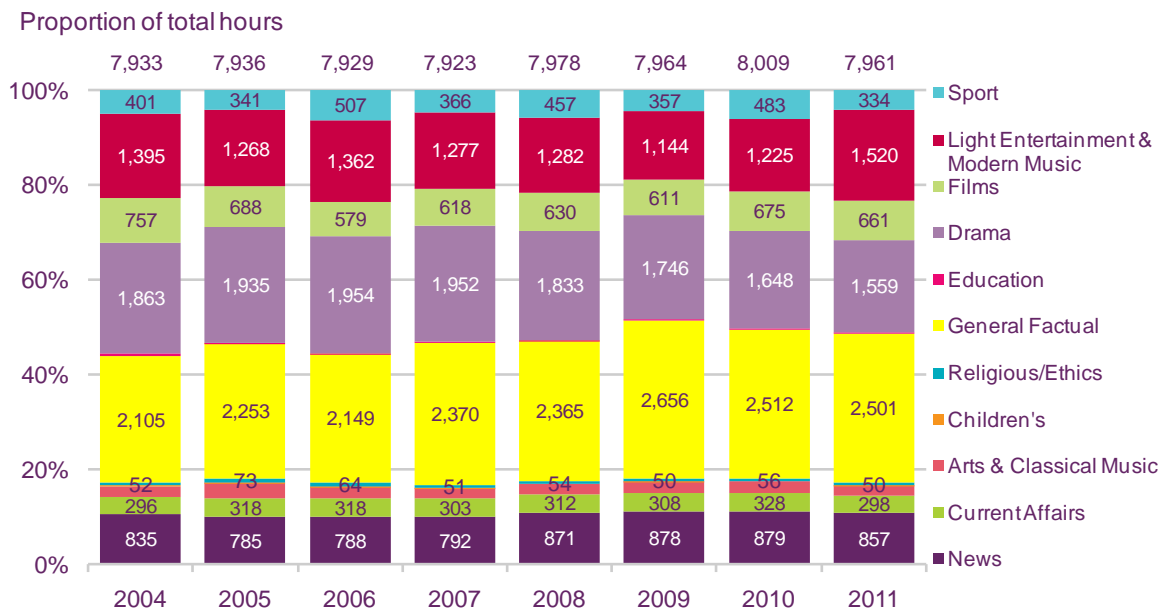


Source: Ofcom/broadcasters. Note: Figures do not include spend on nations and regions output.

At the programme genre level, among the five main PSB channels in peak time, there was a marked increase in hours of Light Entertainment and Modern Music during 2011, up by 24% (295 hours) to 1,520 hours. The biggest relative reduction in hours was in sporting events (down 31% on last year). This can be attributed in part to the fact that 2010 was a big sporting year, with the Football World Cup in South Africa in June 2010 and the Vancouver Winter Olympics earlier in the same year.

All other genres experienced a reduction in volume of output in 2011. The 9% decline in Current Affairs in 2011 output can be attributed to the high volume of general election coverage in 2010. The 2011 figure of 298 hours is closer to the 2009 pre-election figure of 308 hours.

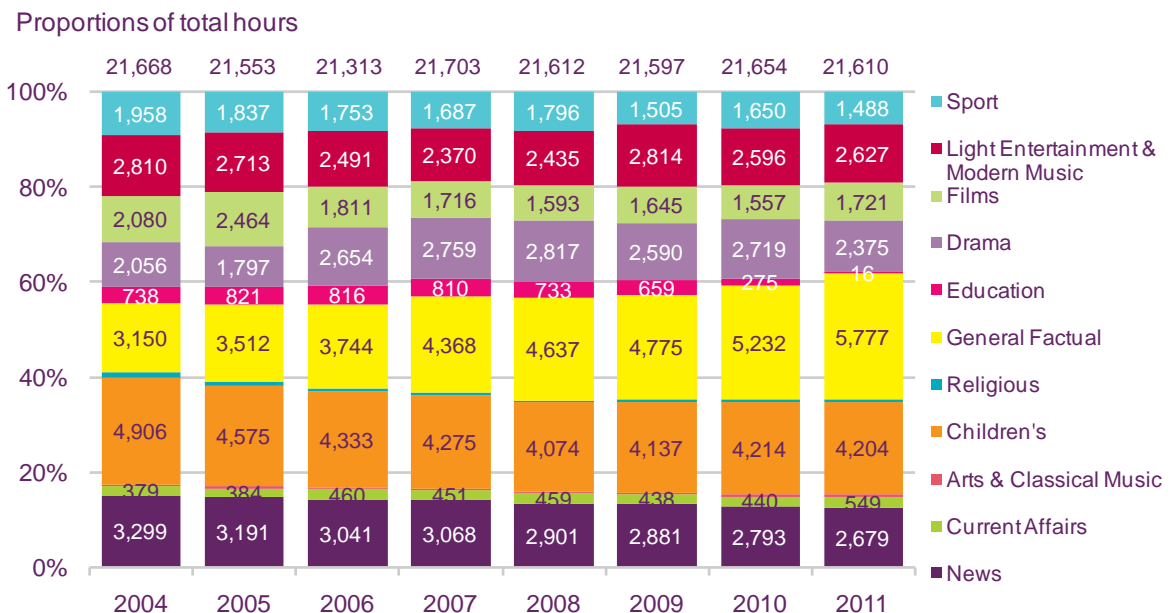
**Figure 2.34 Genre mix on five main PSB channels in peak time, by hours**



Source: Ofcom/broadcasters. Note: Includes five main channels including ITV Breakfast, figures do not include hours of nations and regions output.

Approximately half of all the genre categories experienced a reduction in daytime output, while the remainder increased. Education output had the largest relative decrease (down 94% since 2010) whereas News had the biggest relative increase (25%) taking the total to 549 hours for 2011.

**Figure 2.35 Genre mix on five main PSB channels: daytime**

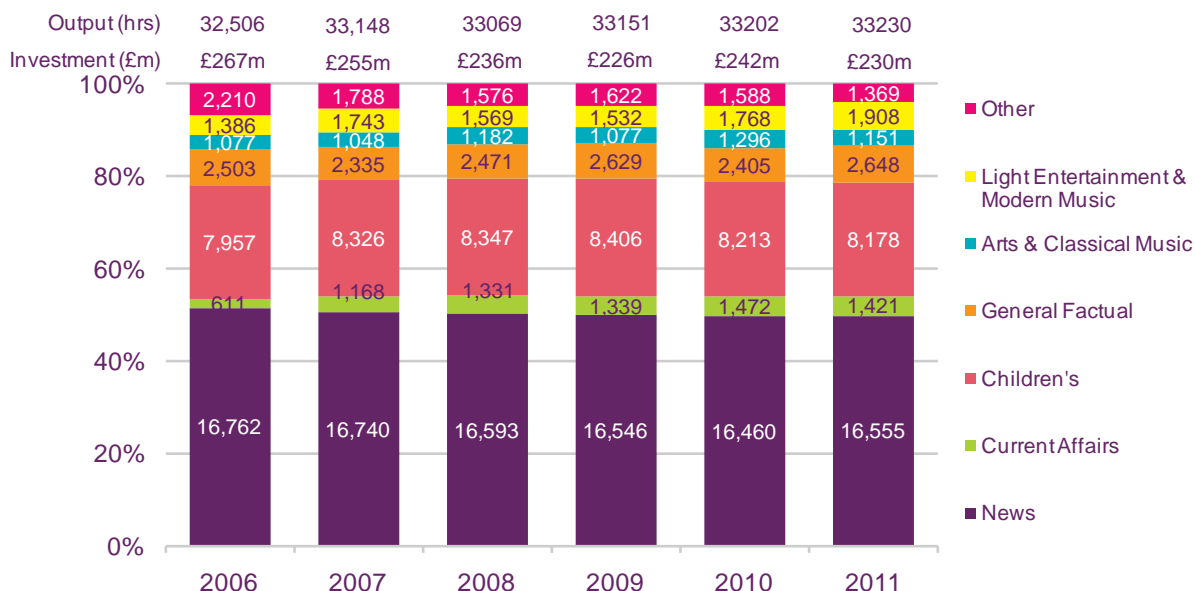


Source: Ofcom/broadcasters. Note: Includes five main channels plus ITV Breakfast. Figures do not include hours of nations and regions output.

Figure 2.36 sets out the genre mix of the BBC's digital channels, which remains broadly similar to 2010 – in the main because three of the five digital channels are single-genre. The

three most notable year-on-year differences are more hours dedicated to General Factual programming (up 10% from 2010), as well as Light Entertainment and Modern Music (up 8% from 2010). The biggest relative reductions were in Arts and Classical Music and Other, down 11% and 14% respectively.

**Figure 2.36 The BBC's digital channels genre mix, by hours: all day**



Source: Ofcom/broadcasters. Note: BBC digital channels include BBC Three, BBC Four, BBC News 24, BBC Parliament, CBBC, CBeebies. Investment figures are in 2011 prices. 'Other' includes: Education, Drama, Film, Religion and Sports.

## 2.2.9 Multichannel output and spend

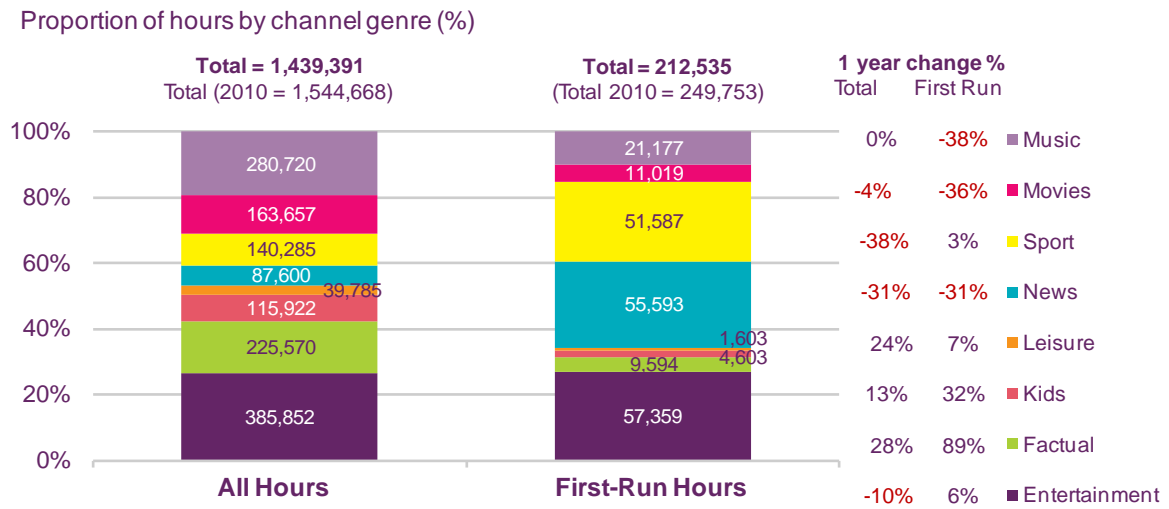
### Multichannel broadcasters transmitted 1.4 million hours of output in 2011

Figure 2.37 focuses on the composition of broadcast hours in the multichannel sector. Channels in the Entertainment genre broadcast 385,852 hours of programming in 2011, more than a quarter (27%) of the total hours of output among the eight key genres included in our analysis. Total hours in these genres decreased by 7% in 2011 to 1,439,391 hours.

Total first-run multichannel hours decreased in 2011, by 15% year on year to 212,535 hours. News channels represent a disproportionately high number of first-run hours (26% of the total) because the majority of their output is live, studio-based content.

First-run hours for Entertainment were up by 6% to 57,359 (27% of the total) in 2011, which may, in part, be explained by the increase in live reality-based talent shows.

**Figure 2.37 Total multichannel hours and first-run originations/acquisitions : 2011**



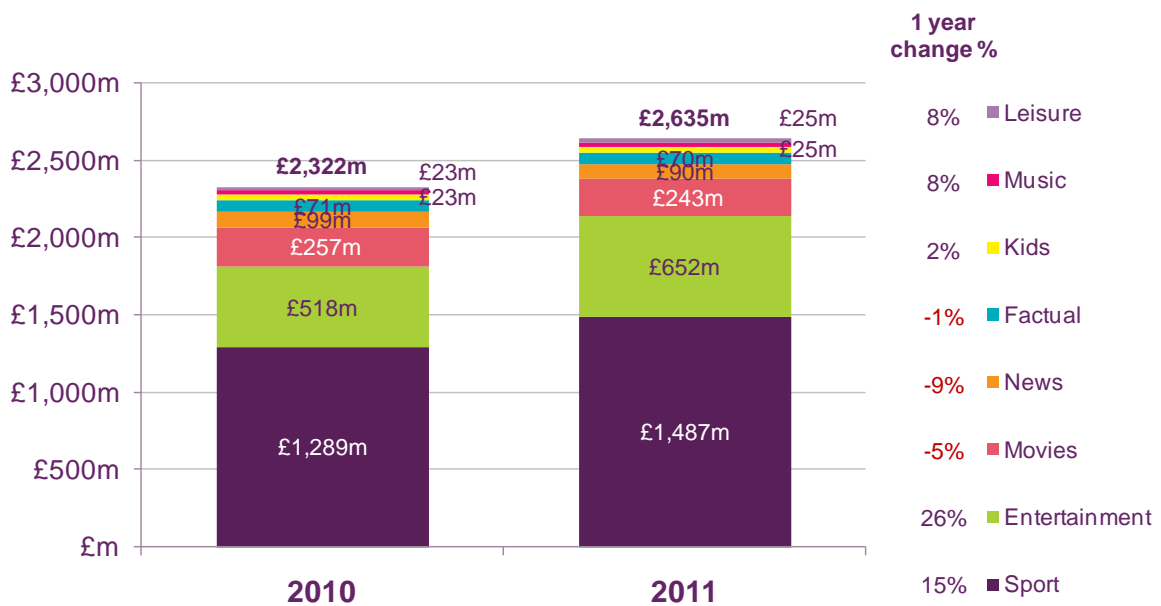
Source: Ofcom/broadcasters. Note: Broadcast hours exclude Sky Box Office and 'barker' channels, which promote TV content. First-run hours include first-run in-house, commissioned and acquired content.

**Multichannel content spend increased by 13% in 2011 to £2.6bn**

Commercial multichannel broadcasters in the eight mainstream genres spent £2.6bn on programming in 2011, a 13% year-on-year increase. At £1.5bn, sports programming represented more than half (56%) of the total multichannel spend, up 15% year on year. News had the biggest proportional decrease in content spending over the same period (-9%).

Investment in Entertainment channels rose by 26% to £652m, the second-largest genre after Sports.

**Figure 2.38 Content spend by commercial multichannels in key genres: 2010 - 2011**



Source: Ofcom/broadcasters. Note: Excludes BBC digital channels.

## 2.2.10 Other audio-visual revenue

**Advertising remains the main source of revenue among online TV content providers, although competition increases between providers of subscription services.**

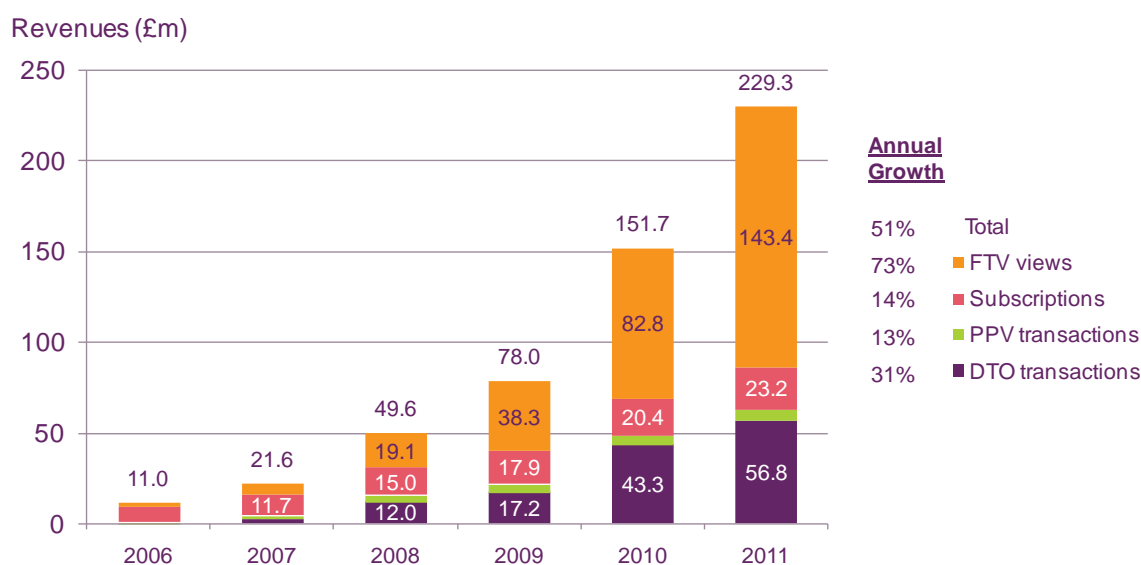
Online TV revenue in the UK has increased significantly in the last five years, from £11m in 2006 to £229m in 2011, according to data from Screen Digest. Year on year, the market grew by 51% in 2011, with total market revenue standing at £229m.

The free-to view (FTV) business model remains the principal contributor, through advertising income, to overall online TV revenues, accounting for £134m in 2011. The catch-up services from commercial PSB broadcasters, including ITV Player, 4oD and Demand 5, are all funded wholly or in part from this business model.

The pay-per view (PPV) and subscription models saw slower growth in 2011, increasing by 13% and 14% respectively. However, with the recent launch of a number of new services in this area, such as Netflix and Lovefilm's instant streaming service, these revenue streams are set to experience stronger growth in 2012.

The download-to own business model (DTO) experienced further growth in 2011, growing by 31% to reach £56.8m. This may be driven in part by the popularity of services such as Apple's iTunes, where consumers pay to download a permanent copy of a programme.

**Figure 2.39 Online TV revenues**



Source: Screen Digest. Note: FTV = free to view; PPV = pay per view; DTO = download to own.



## 2.3 The TV and audio-visual viewer

### 2.3.1 Summary

This section examines the availability and take-up of digital TV platforms and trends in television consumption, including some categories of non-linear viewing, during 2011. It also analyses viewers' attitudes to television. The key points include:

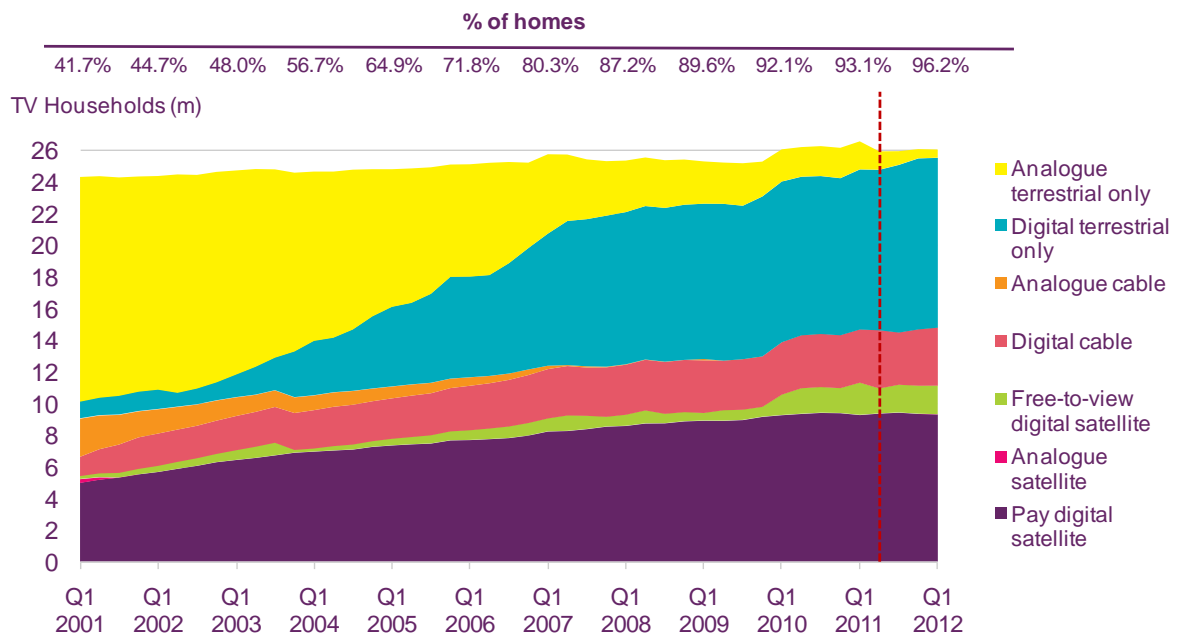
- **On average viewers watched 4 hours of television per day in 2011; this has remained stable year on year.**
- **The main five PSBs and their portfolio channels together attracted 73.5% of total viewing in multichannel homes**, an increase of 2.1pp since 2010. This is driven by the rise in viewing of the PSBs' portfolio channels, which now accounts for 20.3% of total viewing (up 2.9pp on 2010), whereas the main five PSB channels' share decreased slightly over this period, to a 53.2% share of viewing hours in 2011.
- **Around half (47%) of UK adults now have a digital video recorder (DVR) at home** (Q1, 2012). Among DVR homes, time-shifting represents 15% of total viewing. This has changed little since 2006 (13%). The results indicate that viewing programmes as they are broadcast remains the most popular way of watching television.
- **Among UK adults with home internet, 37% watch online catch-up TV (Q1, 2012)**, a small increase of 2 percentage points versus the same period in 2011. 16-24 year olds are most likely to use catch-up services (48%).
- **25 million people aged 2+ used any video content services online (March 2012) according to Nielsen/UKCOM data.** The results indicate no change in overall audience numbers compared to the same period last year.

### 2.3.2 Multichannel television take-up

**Analogue terrestrial take-up declines further, to 3.8% of homes, as digital switchover nears completion**

Digital TV penetration on main television sets increased further; to 96.2% of all UK homes in Q1 2012, as more regions switched to digital. BSkyB's pay digital satellite platform, and homes using only Freeview's digital terrestrial (DTT) service, continue to account for majority of digital homes. Only 3.8% of UK homes still exclusively use analogue terrestrial for television viewing.

**Figure 2.40 Take-up of multichannel TV on main sets**



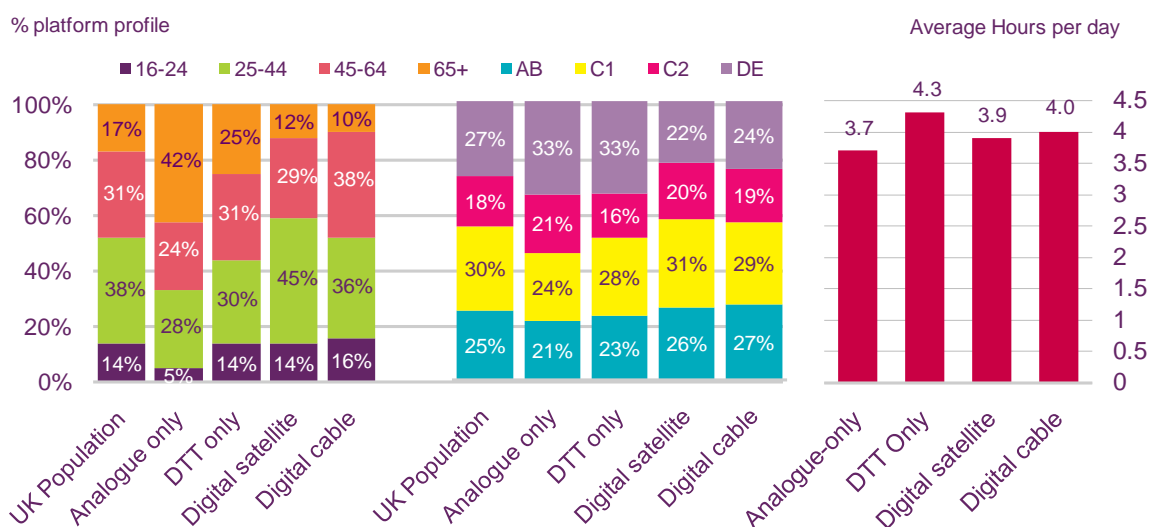
Source: BARB Establishment Survey from Q2 2011, Ofcom/GfK NOP research from Q1 2007, previous quarters include subscriber data and Ofcom market estimates for DTT and free satellite  
 Note: Digital terrestrial relates to DTT-only homes.

### Platform demographics

Figure 2.41 shows the age and demographic mix of TV platforms in 2012, together with television viewing by platform. Digital satellite and cable attracted a higher proportion of younger viewers than analogue-only and DTT platforms. DTT had the highest proportion of people aged 65+ of all the digital platforms, and also had the highest proportion of those from DE households. Individuals in households with DTT-only watched on average 4.3 hours of television per day, higher than the viewing average across those households with digital satellite or digital cable.



**Figure 2.41 Platform demographics by age, socio-economic group and viewing hours**



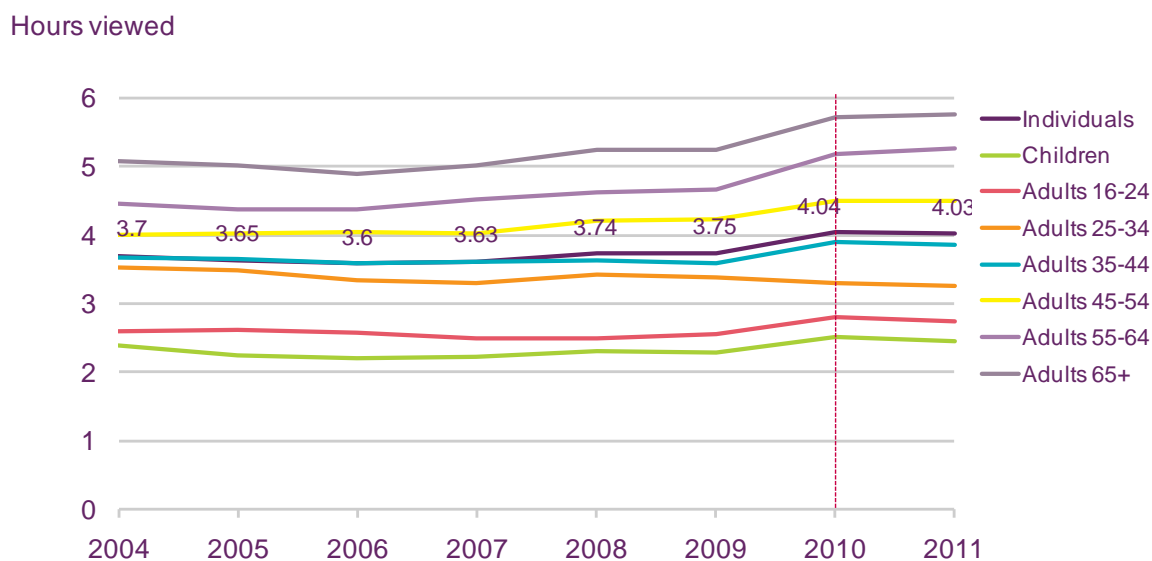
Source: Ofcom 2012 data and BARB 2011 data

### 2.3.3 Television viewing

#### Viewers watched on average 4 hours of television per day in 2011

According to BARB, the average number of hours of television watched by individuals in the UK has risen over the past eight years, from 3.7 hours a day in 2004 to 4.0 hours a day in 2011 (Figure 2.42). All the age groups have increased their viewing except for adults aged 25-34, whose viewing fell from 3.5 hours a day in 2004 to 3.3 hours per day in 2011. Adults aged 55-64 increased their viewing hours most; from 5.1 hours a day in 2004 to 5.8 hours per day in 2011. Year on year, viewing has remained stable at 4 hours per day.

**Figure 2.42 Average hours of television viewing per day, by age, all homes**

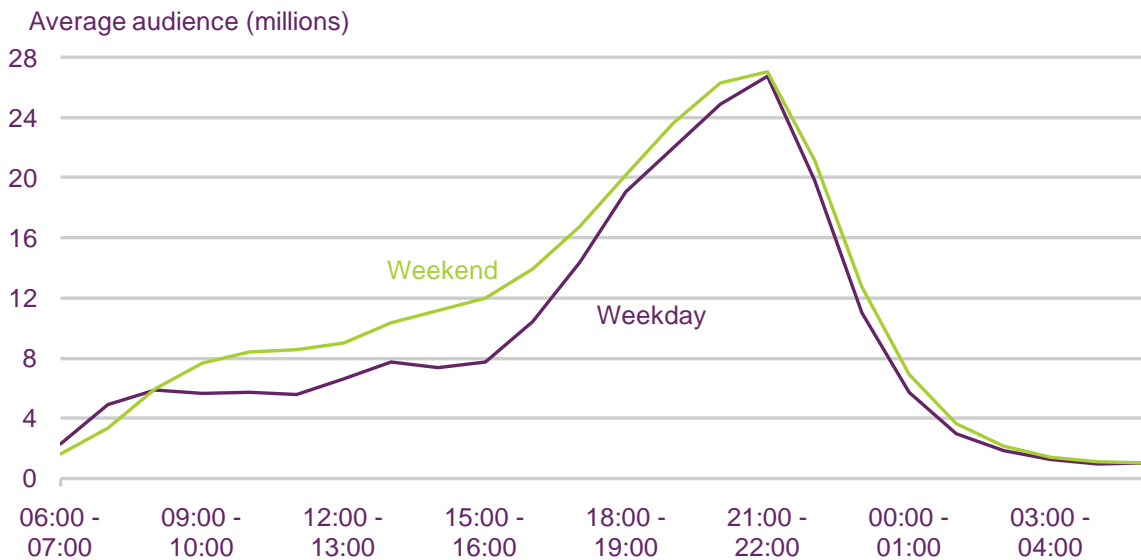


Source: BARB. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution.

## TV audiences are higher during the day at the weekends

Figure 2.43 illustrates how television audiences tend to be larger at the weekends, with a gradual increase in viewing audiences throughout the day, until peak time viewing in the evening. This contrasts with the pattern of weekday viewing, with mini-peaks at breakfast and lunchtime, before the main peak in the evening. The only time that the weekday audience exceeded the weekend audience is during the morning breakfast slots from 6am to 9am.

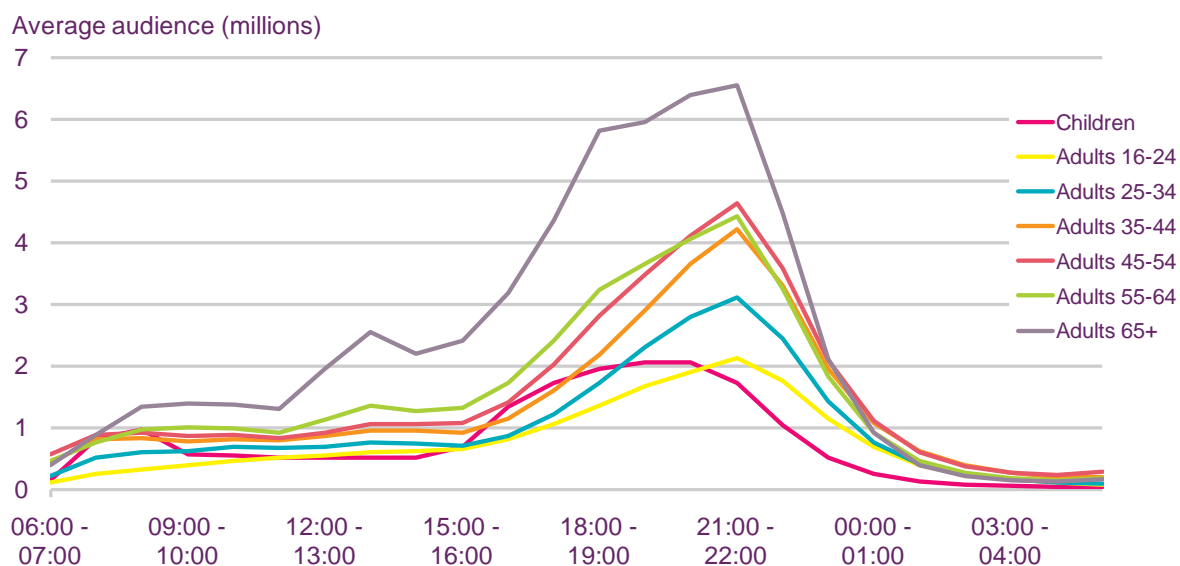
**Figure 2.43 Average 2011 audiences, weekdays/weekends, by day part: all homes**



Source: BARB.

Figure 2.44 depicts the age profile by day part on weekdays. Adults aged 65+ are, overall, the largest audience group throughout the day. The volume of viewers increases among all age groups from about 4pm onwards and reaches a peak between 9pm and 10pm. Children's viewing climbs at a steeper rate than adults' from 4pm, when they arrive home from school, and reaches a peak earlier in the evening, between 8pm and 9pm. Young adults aged 16-24 watch the least television, with a viewing peak of 2.1 million.

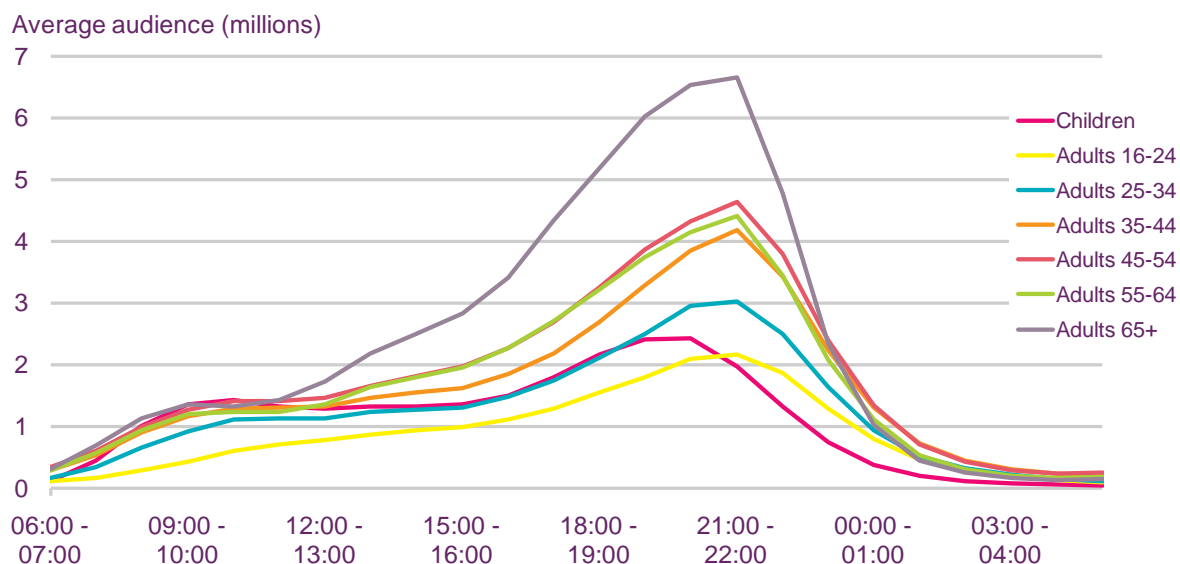
**Figure 2.44 Average 2011 weekday audiences, by day part and age: all homes**



Source: BARB.

At weekends, the average number of viewers rises early in the morning (except among adults aged 16-24) and then gradually increases throughout the day to peak at about 9.30pm. Children’s viewing peaks at about 10-11am and again between 8-9pm (Figure 2.45).

**Figure 2.45 Average 2011 weekend audiences, by day part and age: all homes**



Source: BARB.

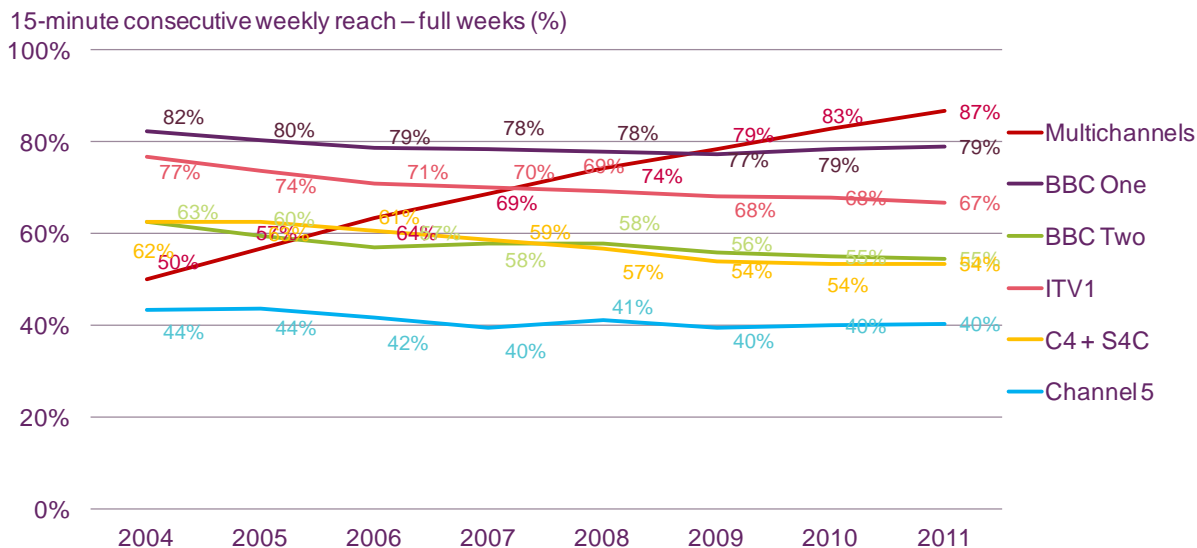
### 2.3.4 Channel reach

#### Collective reach of the multichannels is greater than each of the five main PSBs

The reach of each of the main PSB channels has been in decline since 2004 (Figure 2.46). ITV1’s reach fell by the greatest amount over the eight-year period (by 10 percentage points), followed by Channel 4 and BBC2, which both fell by 8 percentage points. The rate

of decline has slowed in the past two to three years. The impact of digital switchover has increased the average weekly reach of the multichannel services combined from 50% in 2004 to 87% in 2011.

**Figure 2.46 Average weekly TV reach in all homes, by channel**



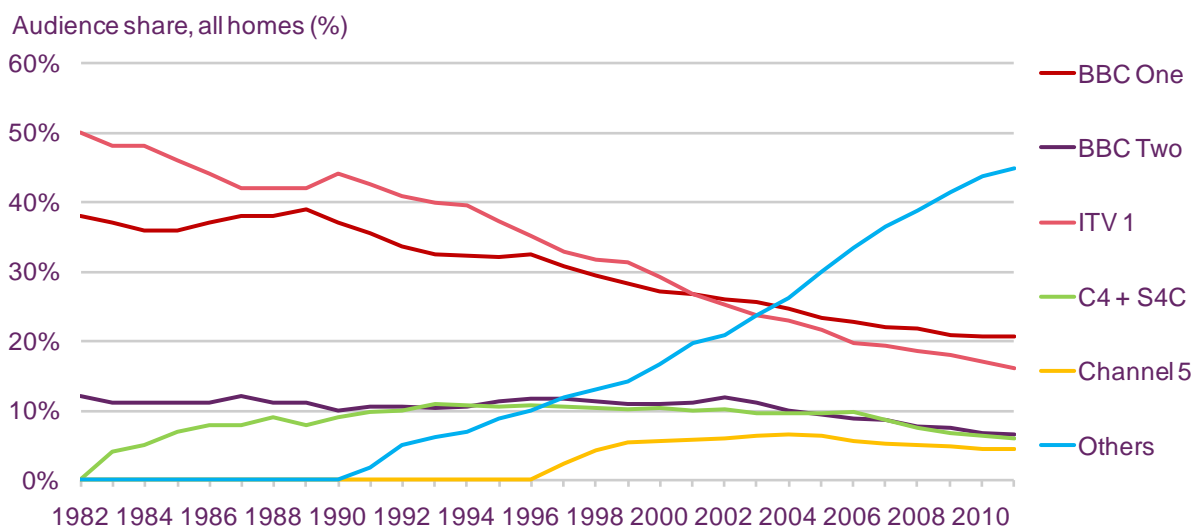
Source: BARB. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. Note: In 2010 C4 and S4C became two separate channels following digital switchover in Wales. For the purposes of this report the two channels remain labelled together in relevant charts. S4C's weekly reach in 2011 was 0.6%. HD and SD viewing included.

### 2.3.5 Viewing shares of the main five PSB channels

#### The combined share of the non-terrestrial channels reached 46% in 2011

Over the past two decades, the shares of each of the main PSB channels have declined, in the face of an increase in the number of non-terrestrial channels. This has particularly affected BBC One and ITV1. In 2004 the combined share of the non-terrestrial channels overtook any individual PSB channel, and as digital switchover began the share of viewing of the non-terrestrial channels continued to increase at the expense of the main PSB channels to reach 46% of total viewing in 2011. Over ten years, BBC One's share has decreased from 27% in 2001 to 21% in 2011, while ITV1's has dropped from 27% to 16% (Figure 2.47).

**Figure 2.47 Channel shares, all homes: 1982 - 2011**



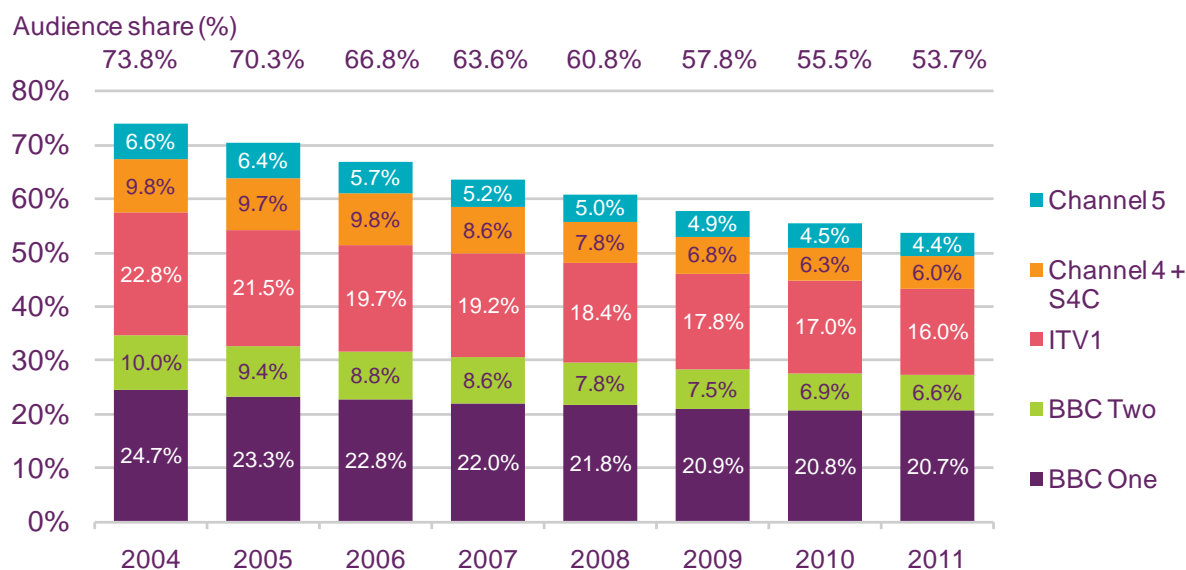
Source: BARB, TAM JICTAR and Ofcom estimates. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. Note: In 2010 C4 and S4C became two separate channels following digital switchover in Wales. For the purposes of this report the two channels remain labelled together in relevant charts. S4C 2011 channel share = 0.1%. HD and SD viewing included.

**The combined share of the main five PSB channels stood at 53.7% in 2011**

Figure 2.48 shows that the combined share of the five main PSB channels has continued to decline since 2004 across all homes, as more homes switch to digital and have access to a greater repertoire of channels.

Each of the five PSB channels' share has declined since 2004. BBC One fell by four percentage points over the eight-year period, although its share has stabilised in the last couple of years. BBC Two's share has declined by 3.4 percentage points since 2004, although its decline over the last two years has been much slower. ITV1 has suffered the greatest reduction in share since 2004, at 6.8 percentage points, and, its recent continuing decline in share, at one percentage point per year, is steeper than that of any of the other PSB channels. Channel 4 has declined by 3.8 percentage points across the entire period and Channel 5 by 2.2 percentage points.

**Figure 2.48 Main five PSB channels' audience share, all homes**

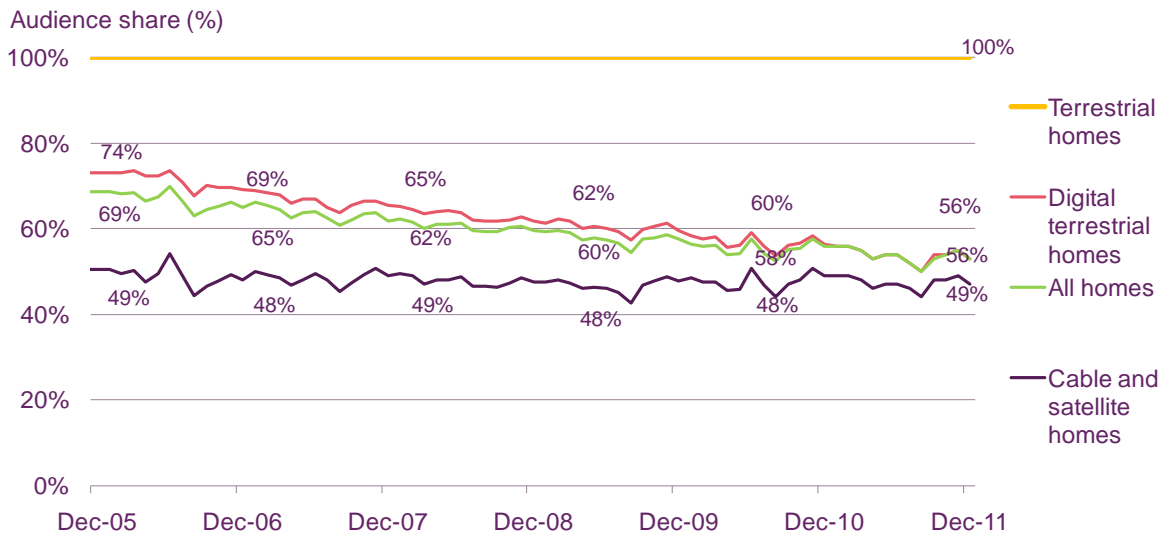


Source: BARB. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. Note: In 2010 C4 and S4C became two separate channels following digital switchover in Wales. For the purposes of this report the two channels remain labelled together in relevant charts. S4C 2011 channel share = 0.1%. HD and SD viewing included

**The combined share of the main five PSB channels remains stronger in DTT homes**

Figure 2.49 shows how the main five PSB channels have performed across different television platforms. The total share of the main five PSB channels remained stronger in DTT homes than in cable and satellite homes. However, while the difference between these platforms was much larger in December 2005 (74% in DTT homes and 49% in cable and satellite homes) over time the total share figures have converged. In December 2011 the total share of the main PSB channels in DTT homes stood at 56%, compared to 49% in cable and satellite homes. So even on the DTT platform, where viewing of the main PSB channels was strongest, there has been continuing decline, while across cable and satellite homes the overall PSB share has remained fairly stable.

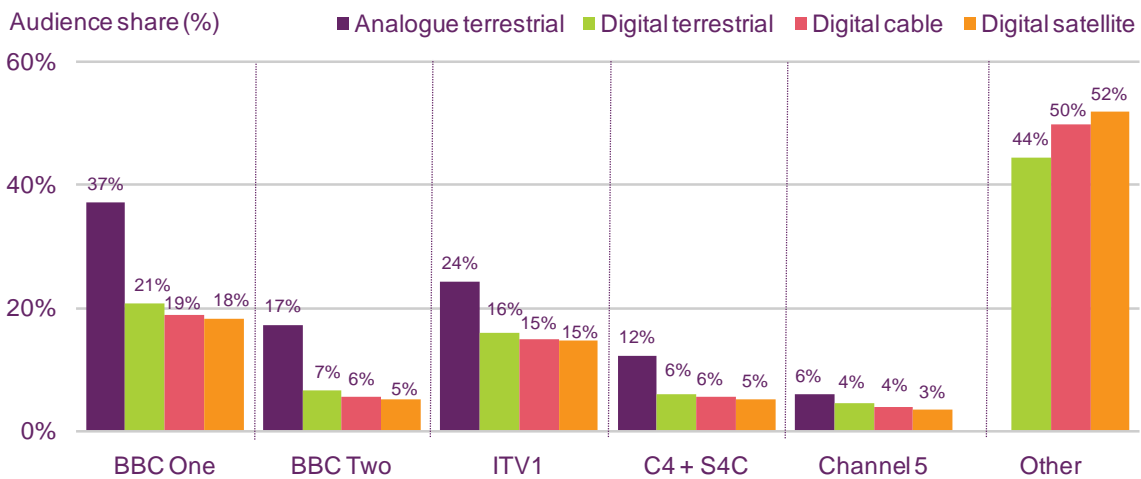
**Figure 2.49 Main five PSB channels' audience shares, by platform**



Source: BARB, all homes, all viewers, various platforms. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. Note: In 2010 C4 and S4C became two separate channels following digital switchover in Wales. For the purposes of this report the two channels remain grouped together in relevant charts. S4C 2011 channel share (all homes) = 0.1%. HD and SD viewing included.

Figure 2.50 breaks down each of the five main PSB channel shares by platform, illustrating how the PSB and non-terrestrial channel share varies between analogue terrestrial, digital terrestrial, digital cable and digital satellite viewers. As expected, the PSB channels perform the best in analogue terrestrial households. In digital terrestrial homes BBC One, BBC Two, and ITV1 perform marginally better than in digital cable and satellite homes.

**Figure 2.50 Channel share, by platform: 2011**



Source: BARB. Note: In 2010 C4 and S4C became two separate channels following digital switchover in Wales. For the purposes of this report the two channels remain labelled together in relevant charts. S4C 2011 channel share (all homes) = 0.1%. HD and SD viewing included.

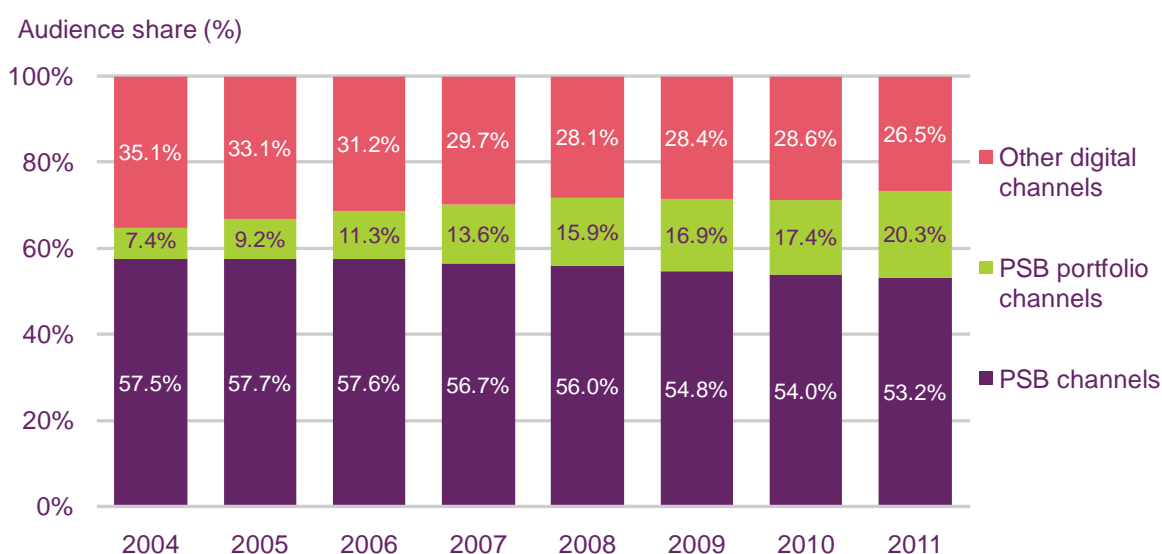
### 2.3.6 Multichannel broadcaster shares

#### The main five PSBs and their portfolio channels together attracted 73.5% of total viewing in multichannel homes

The PSBs each broadcast a number of digital portfolio channels (e.g. BBC Three, BBC Four, ITV2, ITV3, More 4, E4, Five USA, etc). These portfolio channels have seen an increase in share in multichannel homes from 7.4% in 2004 to 20.3% in 2011 (Figure 2.51).

The main five PSB channels experienced a year-on-year decrease of less than one percentage point, to reach a 53.2% share in 2011. However, taking the PSB channels and their portfolio channels together, their combined share in multichannel homes has increased from 64.9% in 2004 to 73.5% in 2011.

**Figure 2.51 PSB and portfolio channel shares in multichannel homes**



Source: BARB. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. Note: In 2010 C4 and S4C became two separate channels following digital switchover in Wales. For the purposes of this report the two channels remain grouped together in relevant charts. S4C 2011 channel share = 0.1%. HD and SD viewing included.

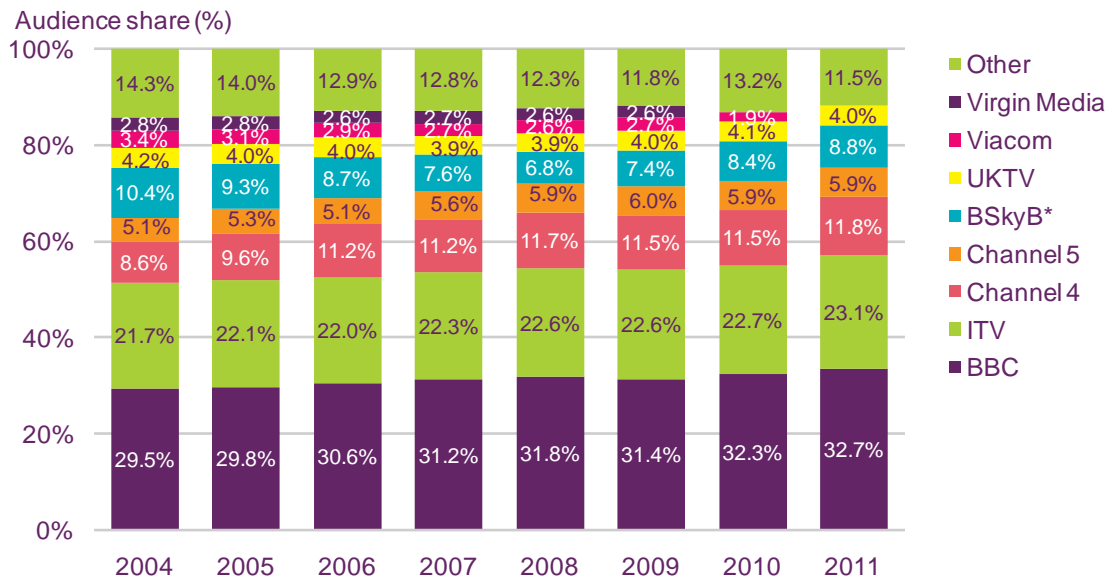
#### The BBC's channels account for the largest share of viewing in multichannel homes

Figure 2.52 illustrates the total audience shares in multichannel homes of each of the major broadcasting groups. Each of the public service broadcasters has seen an overall increase in viewing share since 2004. Their digital channels are responsible for this increase in overall share, and this demonstrates the growing contribution of these channels to each PSB's share overall. The BBC group of channels commands the largest share of viewing, at 32.7%, which has increased from 29.5% in 2004.

BSkyB's channel portfolio achieved 8.8% share in 2011, lower than its 2004 share of 10.4%. However, since 2008, when its share was the lowest recorded since 2004, at 6.8%, there has been a gradual recovery. Total share from the UKTV portfolio has remained fairly stable since 2004, at around 4%.



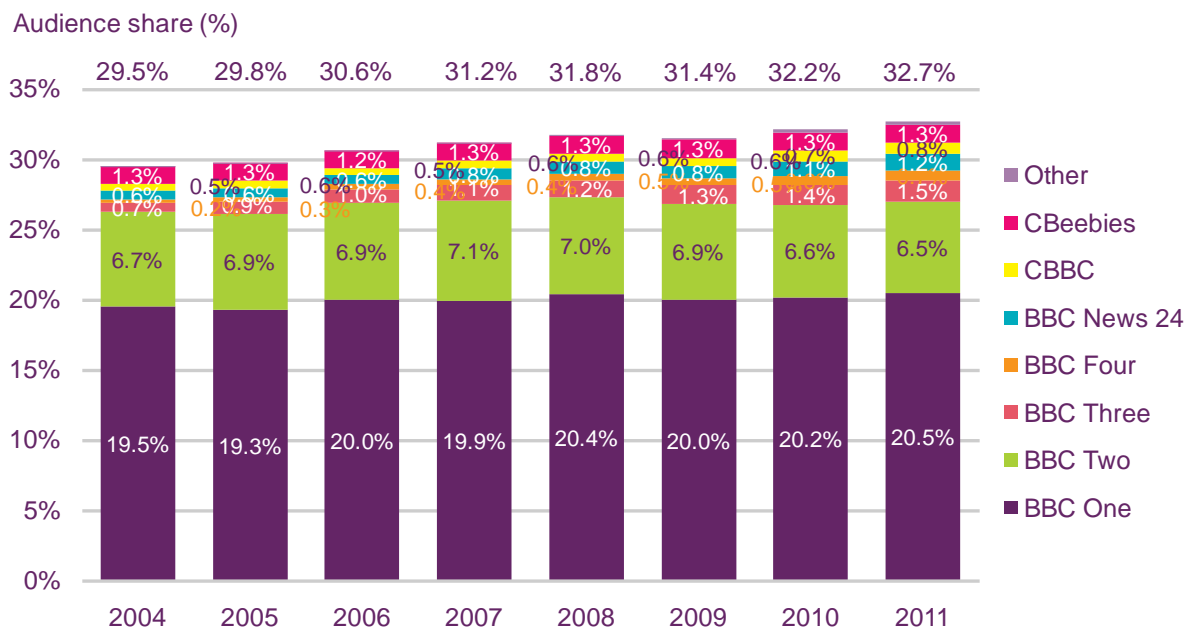
**Figure 2.52 Broadcaster portfolio shares in multichannel homes**



Source: BARB. Note: due to a new BARB measurement panel from 2010 onwards, post-2010 data should be viewed with caution when comparing with previous years. \*BSkyB took ownership of VMTV in June 2010, Virgin Media TV portfolio shares are included in the BSkyB figure for the whole of 2010. ITV includes all ITV network channels, not just those owned by ITV plc. Note: In 2010 C4 and S4C became two separate channels following digital switchover in Wales. For the purposes of this report the two channels remain grouped together in relevant charts. S4C 2011 channel share = 0.1%. HD and SD viewing included.

The BBC's portfolio channels' share has increased by 3.2 percentage points since 2004 to reach 32.7% in 2011 (Figure 2.53). The increases were driven by the growing popularity of its digital channels, particularly BBC Three and BBC News.

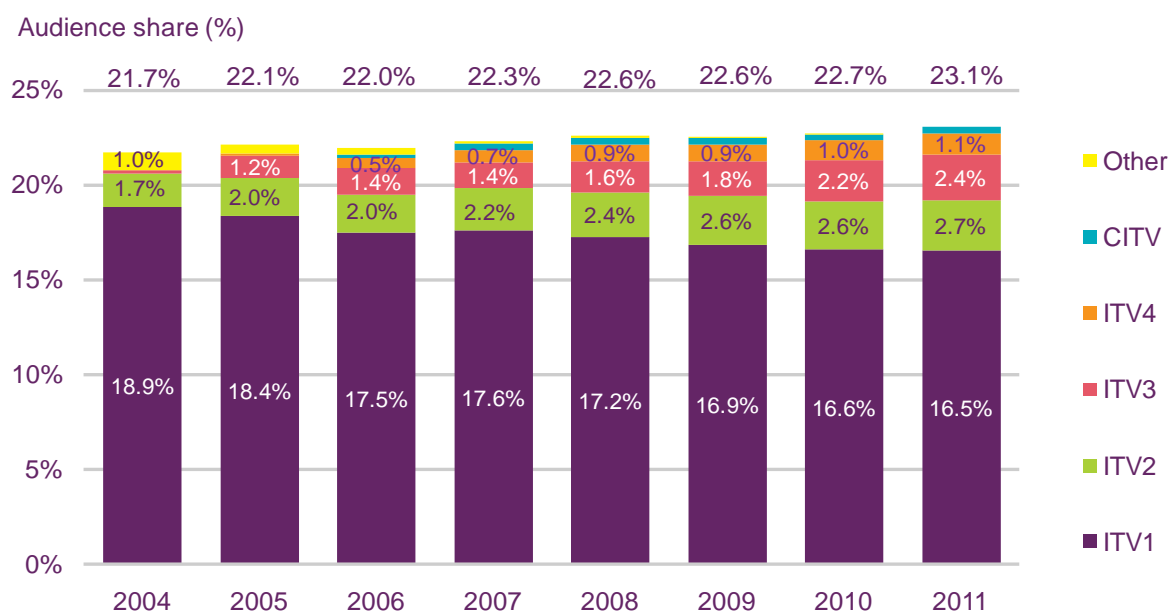
**Figure 2.53 BBC portfolio share in multichannel homes**



Source: BARB. Note: 'Other' includes BBC Parliament, BBC Choice, BBC HD and BBC Knowledge. Due to a new BARB measurement panel from 2010 onwards, post-2010 data are not directly comparable with previous years. HD and SD viewing included.

ITV's portfolio share has increased slightly since 2004; from 21.7% to 23.1%. However, the individual channels' contributions have varied over time (Figure 2.54). ITV2 has increased its share by one percentage point over the eight-year period. This is also the case for ITV4, which has increased its share from 0.5% in 2006 to 1.1% in 2011. However, ITV3's share has grown by the greatest proportion. Its share doubled from 1.2% in 2005 to 2.4% in 2011.

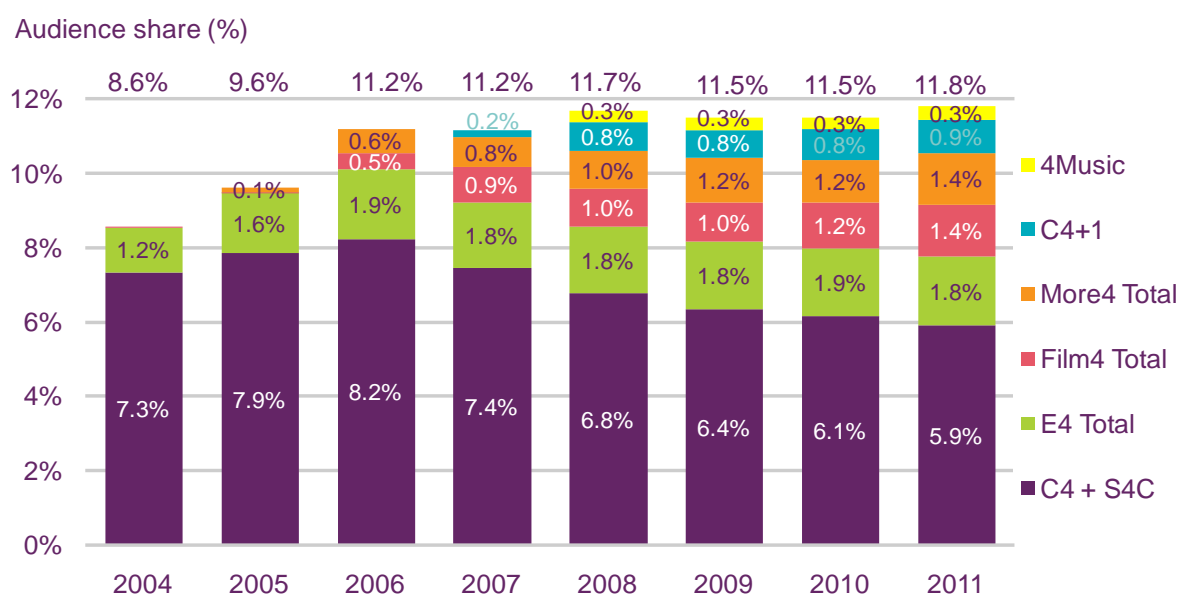
**Figure 2.54 ITV portfolio shares in multichannel homes**



Source: BARB. Note: 'Other' includes (when relevant) ITV Play, Men & Motors, GMTV2, Granada Breeze, Plus, ITV News. ITV1, ITV2, ITV3 and ITV4 and include +1 services' shares. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution

Channel 4's portfolio share in multichannel homes has increased from 8.6% in 2004 to 11.8% in 2011 (Figure 2.55). Since 2006, when Channel 4's main channel peaked at 8.6% share, it has declined year on year and in 2011 its share was 5.9%. E4's share has remained fairly stable since 2006. By contrast, Film4 and More4 both increased their share over the same period. Since its introduction in 2007, Channel 4 +1's share has been steady from 2008 to 2011.

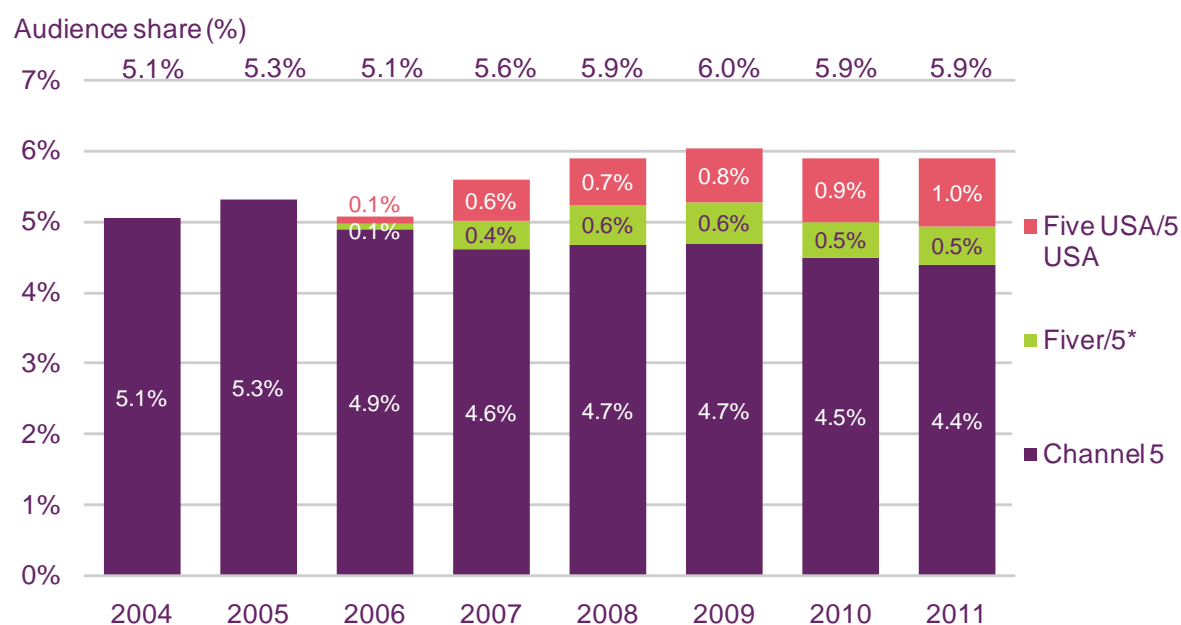
**Figure 2.55 Channel 4 portfolio shares in multichannel homes**



Source: BARB. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. E4, More4 and Film 4 respective +1 channel shares are included. Note: In 2010 C4 and S4C became two separate channels following digital switchover in Wales. For the purposes of this report the two channels remain labelled together in relevant charts. S4C 2011 channel share = 0.1%. HD and SD viewing included.

Channel 5's introduction of its digital channels at the end of 2006 helped increase its overall share from 5.3% in 2005 to 5.9% in 2011 (Figure 2.56). However, the main channel's share has declined; from 5.3% in 2005 to 4.4% in 2011. Since 2007, 5\*'s (as it is now known) share has remained stable, whereas 5 USA has increased from 2007 to 1.0% in 2011.

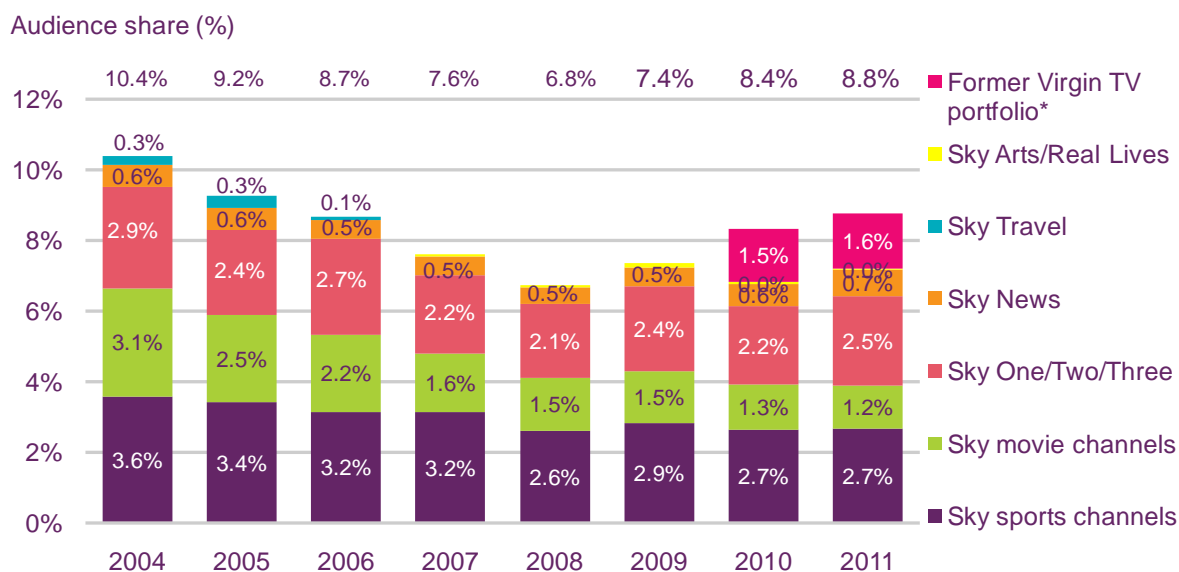
**Figure 2.56 Five portfolio shares in multichannel homes**



Source: BARB. Note: 5\* and 5 US include their +1 service share. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. HD and SD viewing included.

BSkyB's portfolio declined from 2004 to 2008 and has increased each year to reach an 8.8% share in 2011 (Figure 2.57).

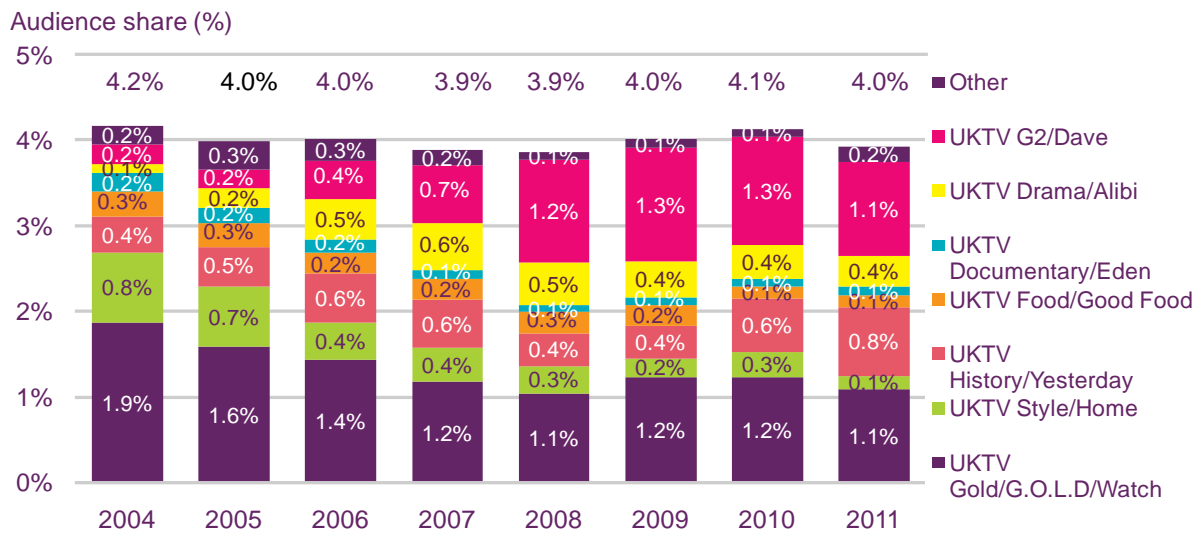
**Figure 2.57 BSkyB portfolio shares in multichannel homes**



Source: BARB. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. \*BSkyB took ownership of VMTV in June 2010, Virgin Media TV portfolio shares are included in the BSkyB figure for the whole of 2010 onwards. HD and SD viewing included.

UKTV's aggregate share in multichannel homes has declined by 0.2 percentage points since 2004 (Figure 2.58). The individual channels which have been responsible for maintaining the overall share are Dave and Yesterday. Since its launch in 2007, Dave's share increased each year until 2010; then in 2011 the channel's share declined slightly, by 0.2 percentage points to 1.1%. Yesterday's share doubled from 0.4% in 2004 to 0.8% in 2011.

**Figure 2.58 UKTV portfolio shares in multichannel homes**



Source: BARB. Note: UKTV portfolio channels have evolved over the past twelve months. In the 2008 figures, new channel names and shares have been matched to old channels. Dave went live in Oct 2007. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. HD and SD viewing included.

**The main five PSBs and their portfolio channels constitute 15 of the top 20 channels**

Figure 2.59 shows individual channels ranked by share in multichannel homes. The top five channels are the five main PSB channels. The PSB portfolio channels also ranked highly, with ten of the remaining fifteen channels being a portfolio channel. UKTV’s channel Yesterday moved up in the rankings from 27th place in 2010 to 20th place in 2011. Dave channel fell from 12th place in 2010 to 16th in 2011.

Sky Sports 1 was the 13<sup>th</sup> most-viewed channel and Sky One ranked in 17<sup>th</sup> place, each in the same place as last year.

**Figure 2.59 The top channels by share in multichannel homes: 2010 to 2011**

Channel	Share		Rank		Channel	Share		Rank	
	2011	2010	2011	2010		2011	2010	2011	2010
BBC One	20.5%	1	1	1	CBeebies	1.3%	11	11	10
ITV1	16.5%	2	2	2	More4	1.2%	12	12	14
Channel 4	6.7%	3	3	3	Sky Sports 1	1.2%	13	13	13
BBC Two	6.5%	4	4	4	BBC News	1.2%	14	14	15
Channel 5	4.4%	5	5	5	ITV4	1.1%	15	15	16
ITV2	2.7%	6	6	6	Dave	1.1%	16	16	12
ITV3	2.4%	7	7	8	Sky One	1.1%	17	17	17
E4	1.8%	8	8	7	Pick TV	1.0%	18	18	18
BBC Three	1.5%	9	9	12	5 USA	1.0%	19	19	20
Film4	1.4%	10	10	11	Yesterday	0.8%	20	20	27

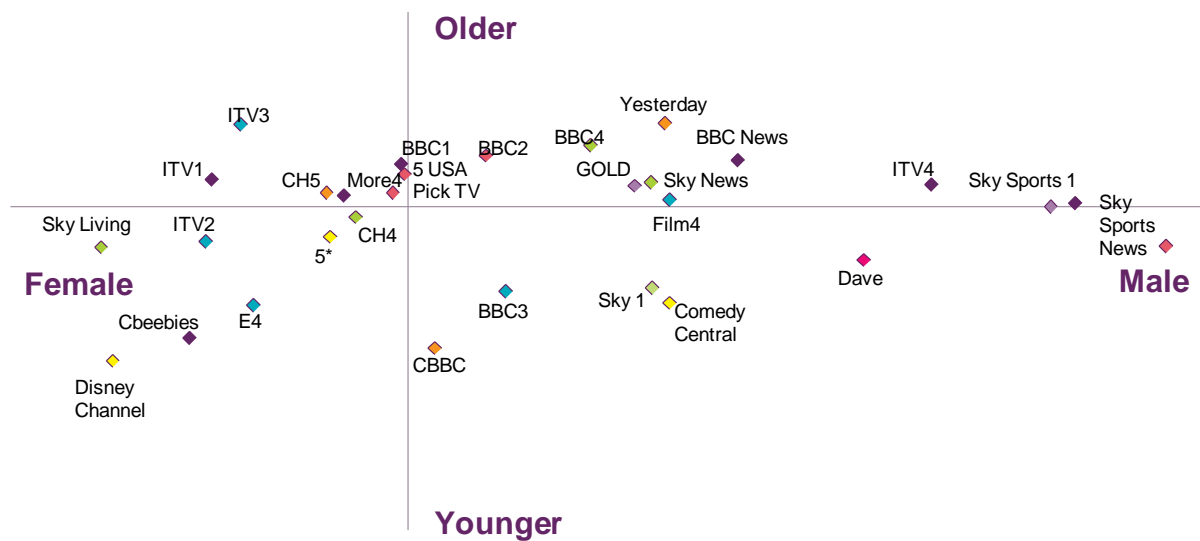
Source: BARB. Note: Includes channels' +1 services. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. HD and SD viewing included.

### Channel demographics

Figure 2.60 plots the age and gender of the 30 most-viewed channels in multichannel homes in 2011. This is calculated relative to the TV population average (which includes children). Slightly more channels attracted an older male audience. With the exception of Channel 4, the remaining main PSB channels all skewed older, with ITV1, Channel 5 and BBC One skewed more female (with varying degrees) and BBC2 more male.

BSkyB had five channels in the top 30. Four of them skewed male (Sky Sports News, Sky Sports 1, Sky News, Sky 1), whereas Sky Living attracted more female viewers.

**Figure 2.60 Age and gender profile of the 30 most-viewed channels in multichannel homes**



Source: BARB. Note: The profile of a channel is calculated relative to the television population in multichannel homes. Includes channels' +1 services. HD and SD viewing included.

### 2.3.7 Live versus time-shifted viewing

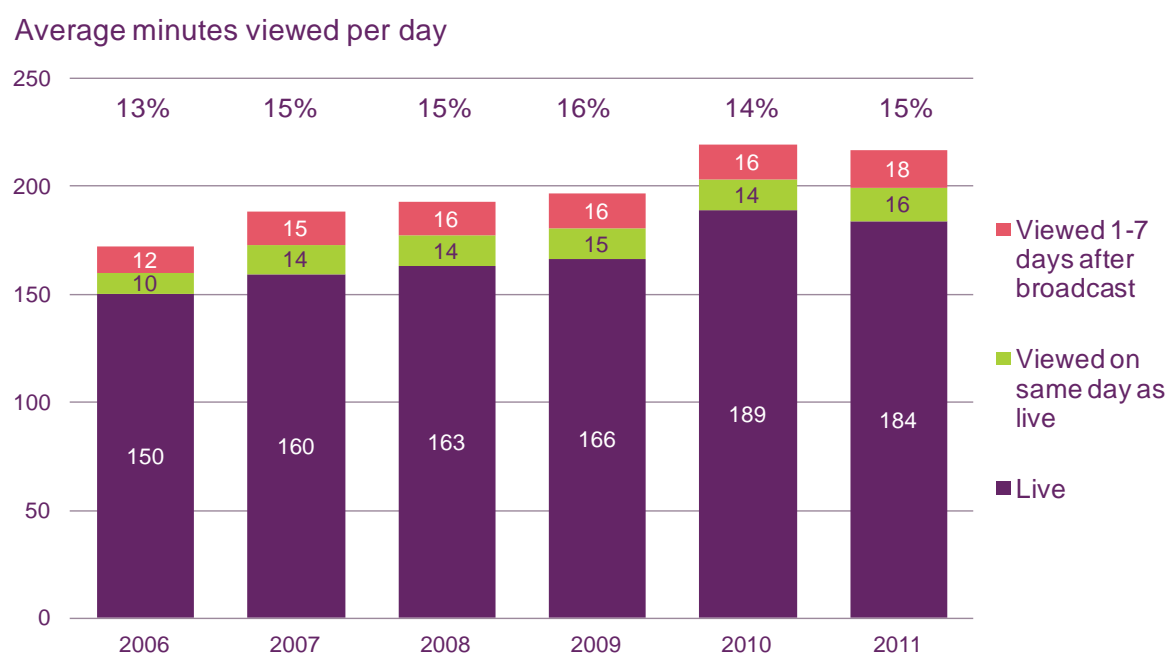
According to Ofcom's latest technology tracker results, digital video recorder (DVR) take-up in Q1 2012 stood at 47% of UK households, compared to 11% in 2006. However, within DVR homes, viewing live television remains the most common way of consuming TV.

#### Viewing live television remains popular in DVR homes

Figure 2.61 shows that in DVR homes live viewing remains the main way of watching television. In 2006 time-shifted viewing represented 13% of total viewing in DVR homes (2% of viewing across all homes); this rose to 15% in 2011 (9% across all homes). In 2011 around half of all time-shifted viewing occurred on the same day as broadcast, while the remainder was watched within seven days of transmission. (Note: viewing after seven days is not captured by BARB.)



**Figure 2.61 Live versus time-shifted viewing, DVR homes**

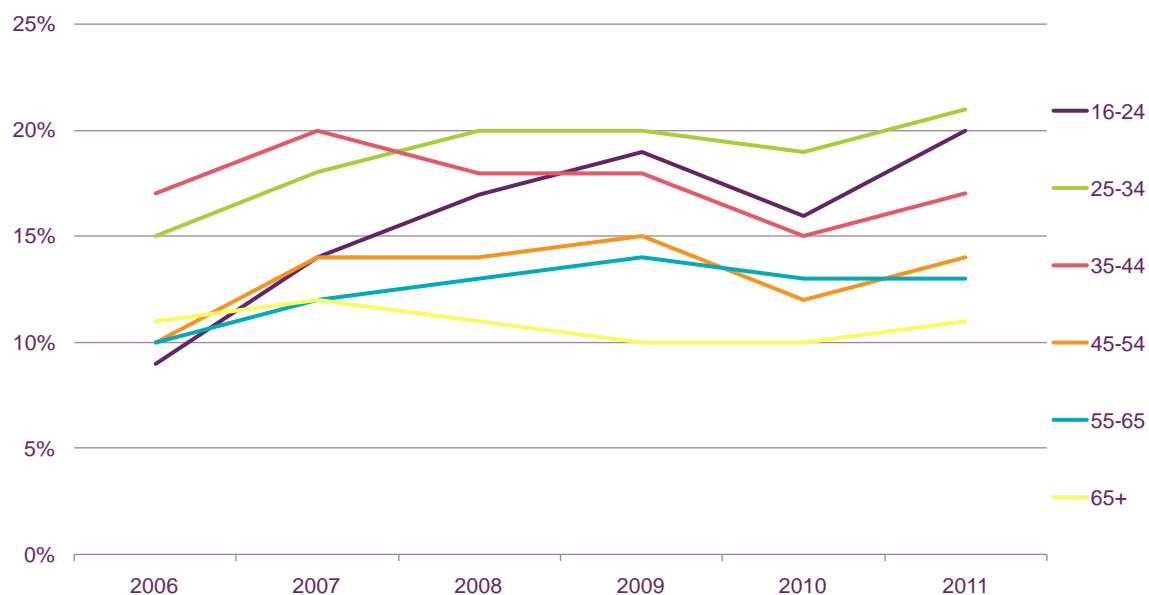


Source: BARB, DVR owners, all homes. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution. Time-shifted viewing defined as total minutes of viewing on same day as live (VOSDAL) + Viewing 1-7 days after broadcast (Coded Playback). All viewing (via a TV set) of broadcast content viewed within 7 days after broadcast is reported by BARB. This will include viewing to catch-up TV services and content viewed via player services such as BBC iPlayer, ITV Player, 4OD etc

**Time-shifted viewing is most popular among 25-34s**

Figure 2.62 illustrates that 25-34s with a DVR are most likely to time-shift their viewing. The proportion has increased from 15% of their viewing in 2006 to 21% in 2011. Those aged 65 and over are the least likely to time-shift, with just over 10% of viewing in 2011 being time-shifted.

**Figure 2.62 Proportion of time shifted viewing, by age**



Source: BARB, DVR owners, all homes. Note: New BARB panel introduced in 2010. As a result, pre- and post-panel change data must be compared with caution.

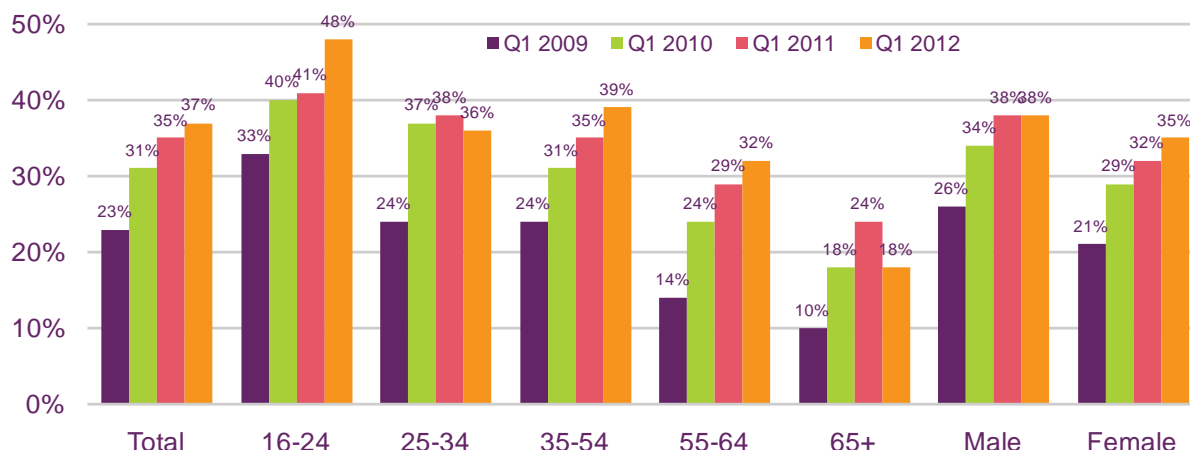
### 2.3.8 Use of online catch-up TV

#### 37% of UK adults with *home internet* watch online catch-up TV

The increase in home broadband take-up, together with the broadcasters promoting their catch-up television services, are likely to have contributed to the growing popularity of these services. However, the latest results from Ofcom's technology tracker suggest that the rate of growth is slowing. In 2012, 37% of people with home internet claimed to watch online catch-up services, an increase of two percentage points since 2011 (35%).

Figure 2.63 shows that people aged 16-24 are most likely to use catch-up services (48%), an increase of seven percentage points since 2010.

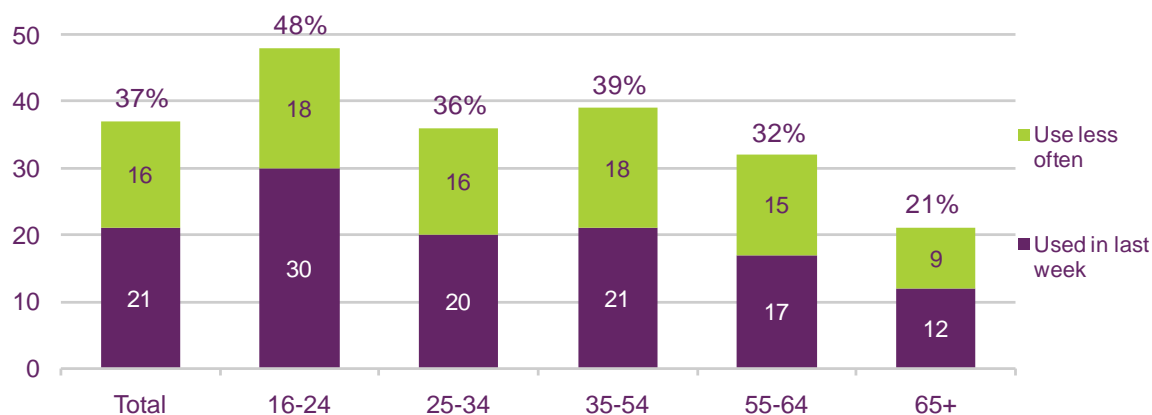
**Figure 2.63 Proportion of adults with home internet who watch online catch-up TV: 2009 to 2012**



Source: Ofcom research Q1 2012. QE5A. Which, if any, of these do you or your household use the internet for whilst at home? Base: All adults who have the internet at home (n=2823 UK, 423 16-24, 524 25-34, 1113 35-54, 431 55-64, 330 65+, 1367 Male, 1456 Female)

Among those who watch online catch-up TV, almost a third (30%) of 16-24 year olds claim to do so on a weekly basis, compared to around one in five (18%) who watch online catch-up TV less than once a week. Among the other age groups, frequency of use is more evenly split, with roughly half watching on a weekly basis and half less frequently.

**Figure 2.64 Proportion of adults with home internet who watch online catch-up TV**



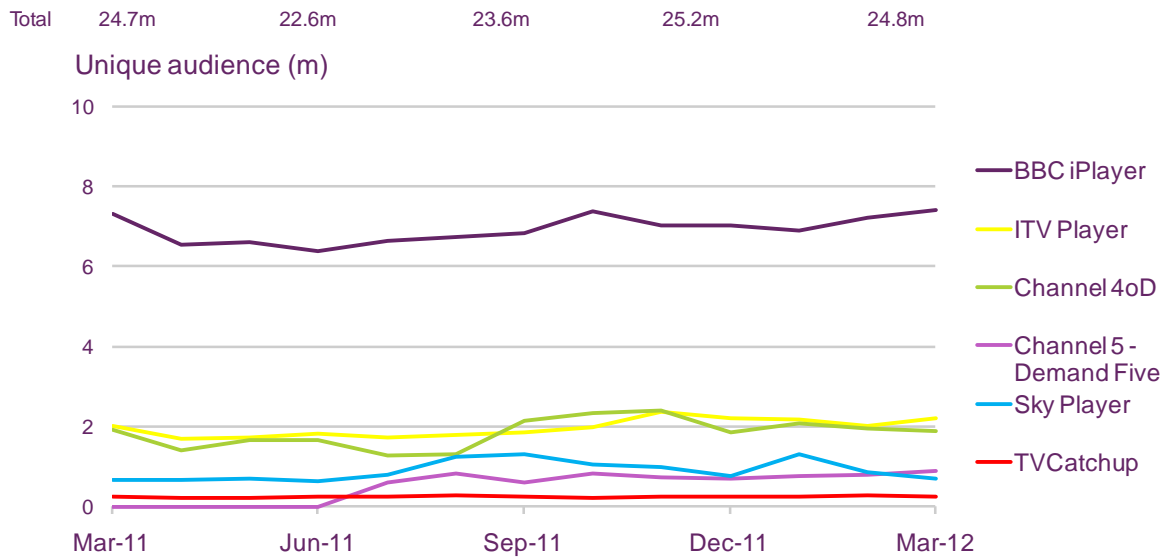
Source: Ofcom technology tracker Q1 2012. Base: All adults who have the internet at home (n=2823 UK, 423 16-24, 524 25-34, 1113 35-54, 431 55-64, 330 65+, 1367 Male, 1456 Female). Question: Which, if any, of these do you or members of your household use the internet for whilst at home? And which, if any, of these activities have you or members of your household used the internet for in the last week?

### Nearly 25 million people use online catch-up TV services

Figure 2.65 shows the number of people who used online catch-up TV services each month over the past 12 months, according to UKCOM/Nielsen data. The results indicate that there has been little growth in the overall number using catch-up services in the past year, with total users estimated at 24.8 million people aged 2+ in March 2012 versus 24.7 million in March 2011.

BBC iPlayer achieved the largest audience, at 7.4 million people in March 2012. This figure represents an average monthly reach of 18% of the online universe.

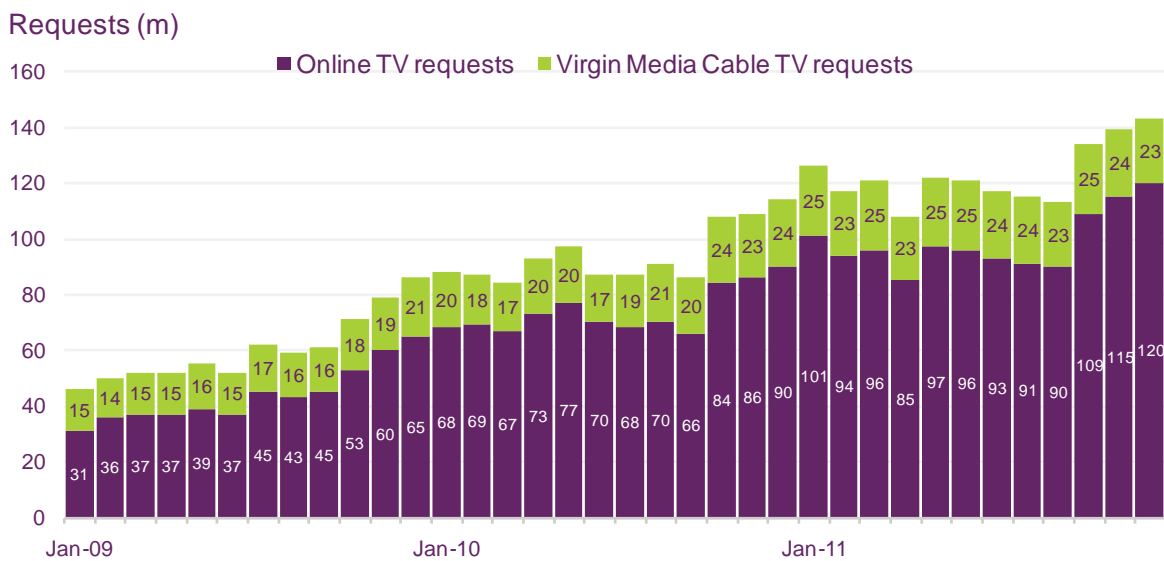
**Figure 2.65 Unique audience to online catch-up TV services (millions)**



Source: UKOM/Nielsen, home and work panel. Note: 'Active reach' is the percentage of all active unique persons aged 2+ who visited the site or used the application. 'Active' is defined as anyone who used an internet-enabled computer within the time period. 'Demand Five trend data not available prior to March 2010 due to change in UKOM definitions.

In total, BBC iPlayer received 143 million requests for TV programmes, online and via Virgin Media cable in December 2011, an increase of 25% on December 2010. This is driven by growth in the number of online requests (from 90 to 120 million), whereas requests via Virgin Media Cable remained stable year on year, at 23 million (Figure 2.66).

**Figure 2.66 Requests to BBC iPlayer, by platform**



Source: BBC

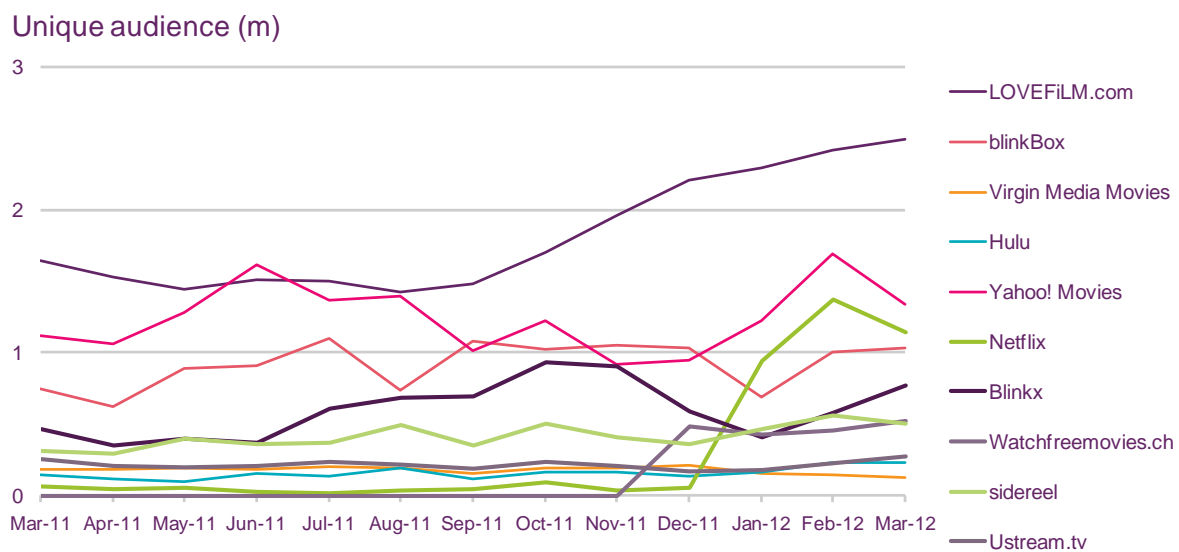
### 2.3.9 Use of online TV and film services

#### Audiences to LoveFilm grew by over 50% to reach 2.5 million people in March 2012

A range of providers now offer online TV and film services. The start of 2011 was characterised by consolidation, while early 2012 saw the arrival of new market entrants. These included the launch of Netflix in the UK in January 2011, while Lovefilm launched a new online streaming-only package, Lovefilm Instant, in December 2010.

According to UKCOM/Nielsen, LoveFilm's unique audience grew by 56% in the past year, from 1.6 million in March 2011 to 2.5 million in March 2012. This represents 6% of the online universe (see Figure 2.67 below). Netflix delivered 1.2 million unique users in March 2012, while Yahoo Movies grew from 1.1 million to 1.4 million unique users in the same period.

**Figure 2.67 Unique audience for selected online film and TV sites (millions)**



Source: UKOM/Nielsen, home and work panel. Note: 'Active reach' is the percentage of all active unique persons aged 2+ who visited the site or used the application. 'Active' is defined as anyone who used an internet-enabled computer within the time period.

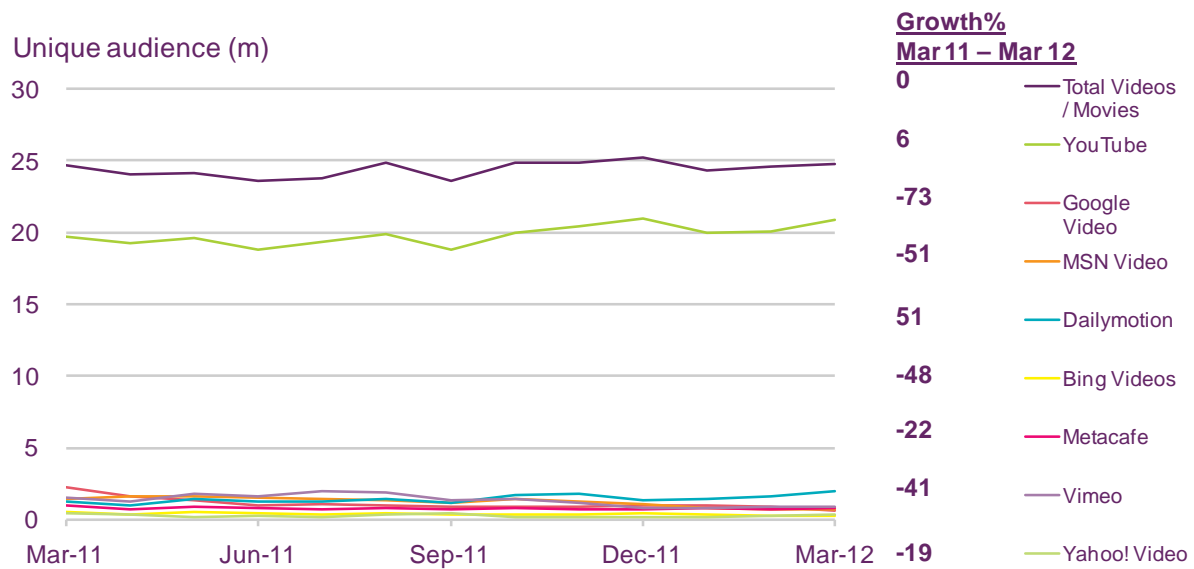
### 2.3.10 Use of online video sharing sites

#### The audiences for online video content remained stable year on year, at 25 million users

The unique audience in Nielsen/UKCOM's video category remained stable at 25 million people in March 2011 (Figure 2.68).

Almost all of the providers illustrated below saw a decline over this period in their unique audience. DailyMotion increased by 51% to 1.9 million people, whereas You Tube's audience grew by 6% to 20.8 million people in March 2012.

**Figure 2.68 Unique audience to selected video sharing sites (millions)**



Source: UKOM/Nielsen, home and work panel.

Source: UKOM/Nielsen, home and work panel. Note: 'Active reach' is the percentage of all active unique persons aged 2+ who visited the site or used the application. 'Active' is defined as anyone who used an internet-enabled computer within the time period.

### 2.3.11 Video on demand (VoD) use in Virgin Media homes

#### Use of Virgin Media's on-demand services continues to grow

Virgin Media offers its digital cable customers a range of on-demand content, including TV catch-up and back catalogue programmes as well as pay-per-view services.

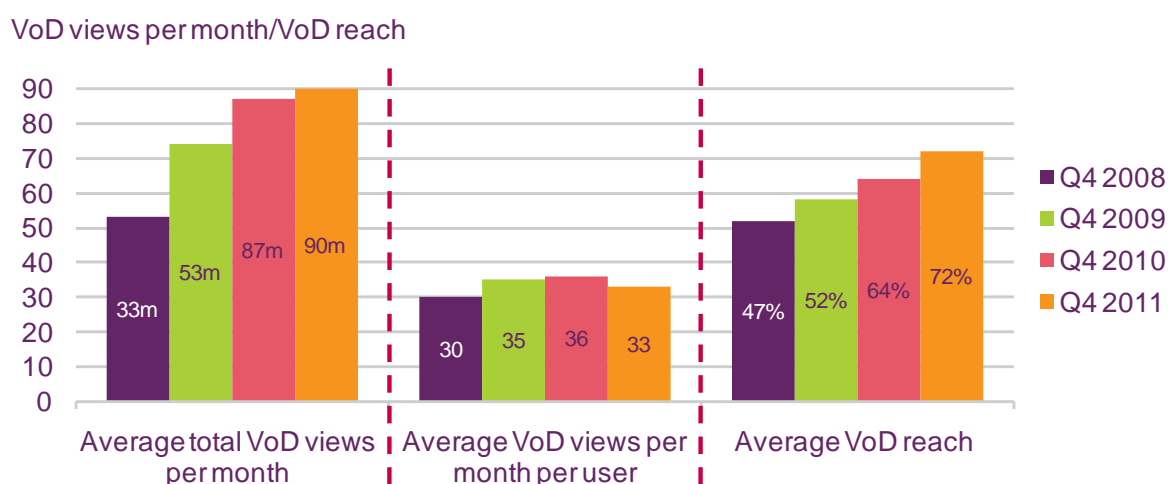
Average monthly reach for Virgin Media's VoD services increased by eight percentage points in 2011 to almost three-quarters (72%) of Virgin's television subscribers. Based on Virgin Media company data, the average number of monthly VoD views also increased by 3 million, to 90 million views in Q4 2011.

Virgin Media's TiVo service was launched in December 2010, and offers the consumer access to audio-visual content drawn from a variety of different sources, including live broadcast, locally recorded files and on-demand content delivered from the internet. The set-top box also allows users to access a range of apps. As of December 2011, Virgin Media had approximately 435,000 TiVo customers<sup>81</sup>, with apps accessed 2.4 million times in a typical month<sup>82</sup>.

<sup>81</sup> Virgin Media Annual Report 2011

<sup>82</sup> Virgin Media company data February 2012 <http://mediacentre.virginmedia.com/Stories/Virgin-Media-surpasses-one-billion-TV-On-Demand-views-in-2011-2353.aspx>

**Figure 2.69 VoD use in Virgin Media homes**



Source: Virgin Media Company results 2008 - 2011

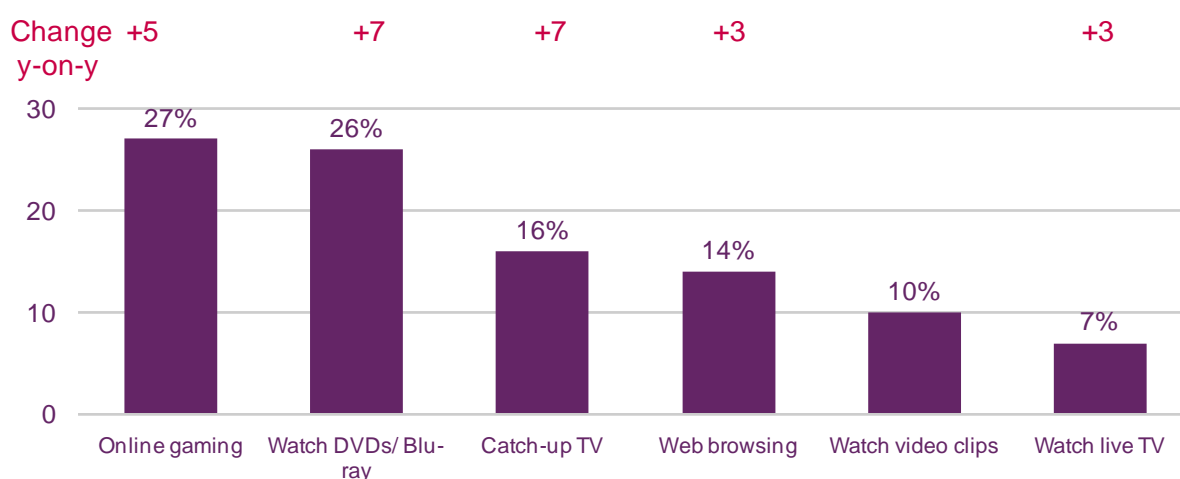
### 2.3.12 Use of games consoles for audio-visual content

#### Just under one fifth of games console owners use their console for catch-up TV

Fifty-five per cent of homes have access to a games console, according to Ofcom's *Technology Tracker* Q1 2012, similar to the last year's results (54%). As games console functionality has developed, so has the use of these devices for a range of activities beyond playing games (see Figure 2.70). In 2012, 16% of people with access to a games console at home watch catch-up TV, and 7% claim to watch live TV via this device.

**Figure 2.70 Use of games consoles to watch audio-visual content**

% of households with games consoles that use the device for additional services



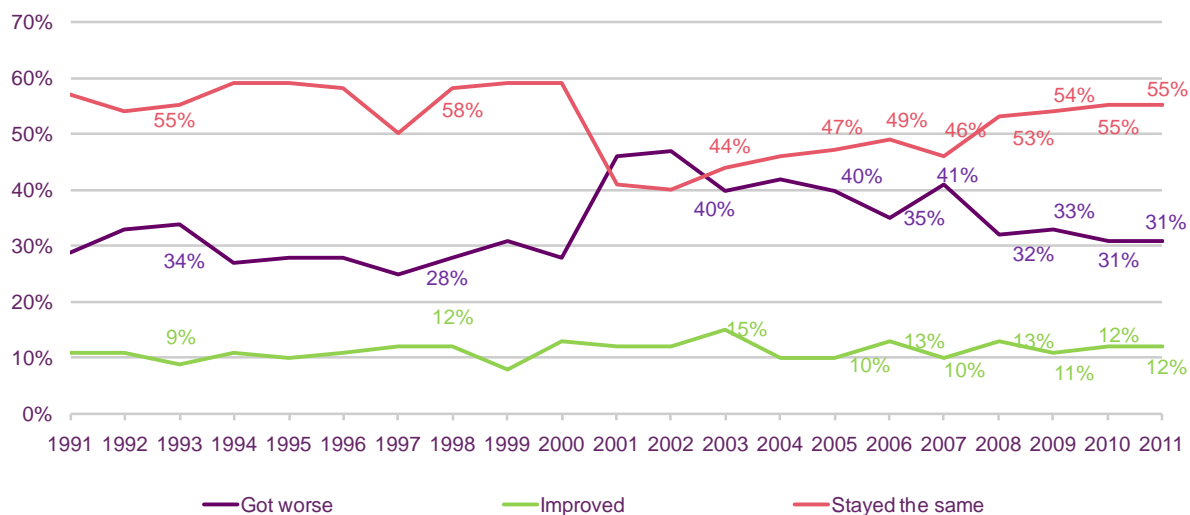
Source: Ofcom research, Q1 2012. Base: UK adults 16+ who have access to a games console at home (n=1958). QB5. Which, if any, of these do you use your games console for?

### 2.3.13 Consumer attitudes towards television

#### One third of people think TV programming has got worse in the past year

According to Ofcom's 2011 media tracker research, 31% of UK adults felt that programming on television had got worse in the past year. This figure remains unchanged since 2010 and down four percentage points over the five-year period since 2006. As in 2010, around half (55%) said programme standards had stayed the same in 2011 (9% higher than in 2006), whereas 12% said they had improved (down 1% versus 2006).

**Figure 2.71 Opinions on programme standards over time**

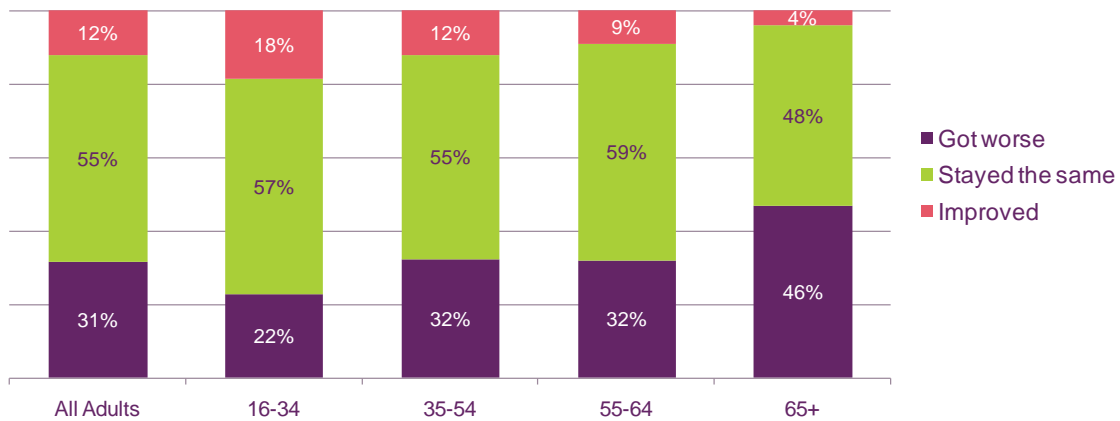


Source: Ofcom Media tracker. Base: All with TV, but excluding those never watching (1,723).

Among the different age groups, younger people were less likely in 2011 to say that programme standards had got worse (22%), whereas those aged 65+ were most likely to say that they had (46%).



**Figure 2.72 Attitudes towards television programme standards 2011, by age**

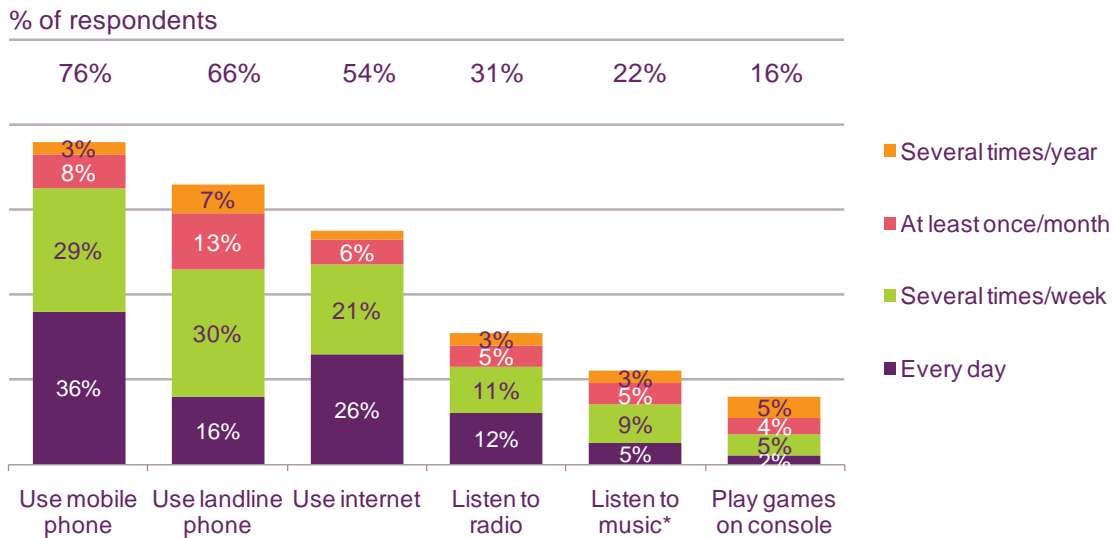


Source: Ofcom Media Tracker 2011. Base: All who watch TV (1,723); 16-34 (573); 35-54 (602); 55-64 (223); 65+ (325). Q - Do you feel that over the past year television programmes have improved, got worse or stayed about the same?

**Around three-quarters of people use their mobile phone when watching TV**

Ofcom's media tracker research shows that three-quarters of people use their mobile phone when watching television, with 36% saying they do this every day. Using the landline phone is the next most likely activity that people do while watching television (66%), followed by going on the internet (54%).

**Figure 2.73 Multitasking when watching television**

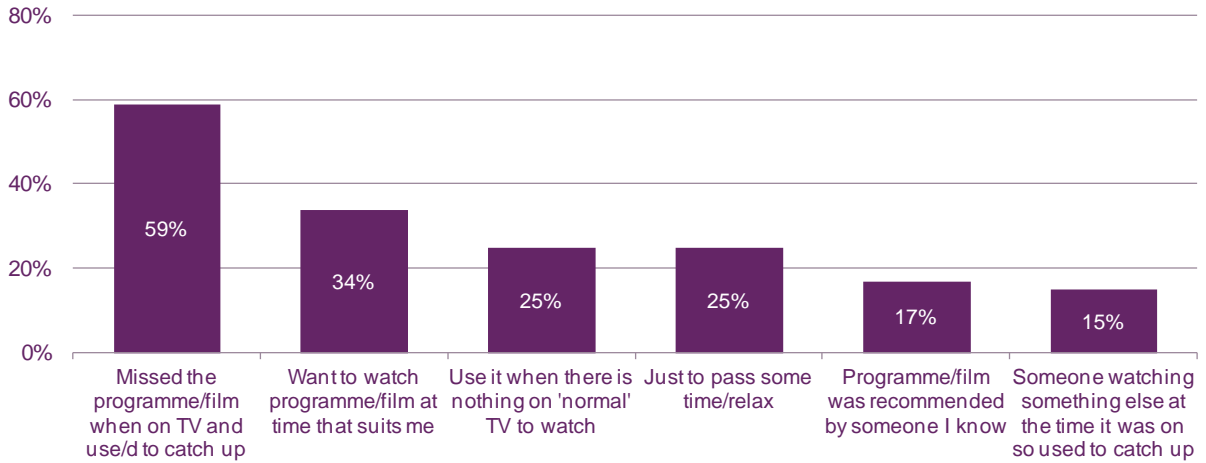


Source: Ofcom Media Tracker 2011 Base: All respondents. \*On stereo or MP3 player or mobile phone or computer. Q - At the same time as watching TV on your TV set, how frequently, if at all, do you also do any of the following activities?

### 2.3.14 Consumer attitudes towards online TV and film services

According to Ofcom's media tracker research, the main reason why people use online TV and film services is to catch up on TV or films they missed when broadcast (59%). This is followed by one third (34%) of respondents saying they use these services to watch programmes at times that suit them.

**Figure 2.74** Reasons for using online TV and film services



Source: Ofcom media tracker 2011. Base: All who use online 'video on demand' (658).



# The Communications Market 2012

## **3 Radio and audio**

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## 3.1 Key market developments in radio and audio

### 3.1.1 Industry metrics and summary

Figure 3.1 UK radio industry key metrics

UK radio industry	2006	2007	2008	2009	2010	2011
Weekly reach of radio (% of population)	89.8%	89.8%	89.5%	89.8%	90.6%	90.8%
Average weekly hours per head	21.2	20.6	20.1	19.8	20.1	20.4
BBC share of listening	54.7%	55.0%	55.7%	55.3%	55.2%	54.7%
Total industry revenue	£1,126m	£1,174m	£1,137m	£1,092m	£1,123m	£1,162m
Commercial revenue	£512m	£522m	£488m	£432m	£438m	£456m
BBC expenditure	£614m	£652m	£649m	£660m	£685m	£706m
Community radio revenue	-	-	£7.5m	£9m	£10m	£10.5m
Radio share of advertising spend	3.0%	2.9%	2.8%	2.8%	2.7%	2.7%
DAB digital radio take-up (households)	19.5%	27.3%	32.1%	34.5%	38.2%	42.6%

Source: RAJAR (all adults age 15+), Ofcom calculations based on figures in BBC Annual Report and Accounts 2011/12 note 2c ([www.bbc.co.uk/annualreport](http://www.bbc.co.uk/annualreport)), AAWarc, broadcasters. Revenue figures are nominal

This section explores some of the significant developments and trends in the UK radio market. The key findings are:

**Total UK radio industry revenue was £1.16bn in 2011, up by 3.5% in a year.** Recorded music revenue was £1.07bn for 2011. This compares with television industry revenue of £12.3bn for the same year.

**Commercial radio revenue increased to £456m for 2011, the second consecutive year of growth.** Growth was driven by national advertising revenues, which rose 4.0% to £220m.

**On average, radio listeners in the UK listened to 22.5 hours of radio each week in 2011, up by 0.4 hours on 2010.** Among 15-24s, despite a year on year increase of 0.7 hours between 2010 and 2011, over the past ten years time spent listening fell by 22%. In 2001, 15-24s listened to 21.8 hours of radio in the average week, in 2011 this stood at an average of 17 hours.

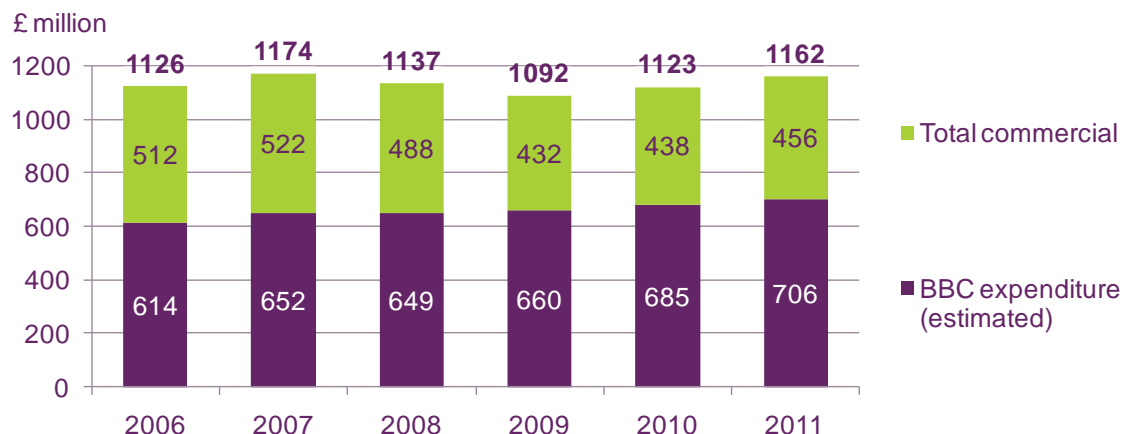
**Digital listening has increased by 11pp over four years.** Digital listening has increased at around 4pp each year for four years and accounted for 29.2% of listening in Q1 2012. Listening through a DAB set accounted for the largest component of digital listening, 19.1% of total hours, while digital TV and online accounted for a further 4.4% and 3.9%.

**More than four in ten UK adults claim to own a DAB radio set.** RAJAR figures show that 42.6% of UK adults claim to own a DAB set at home, a 4.4pp year-on-year increase.

### 3.1.2 Radio revenue up by 3.5% as commercial revenues increase

Radio industry income increased again in 2011, rising 3.5% to £1.16bn. This year's increase is driven by growth of 4.1% in commercial radio revenues, up from £438m to £456m. Estimated spending by the BBC on its radio services was £706m in 2011, up from £685m in 2010, a 3.1% increase. Figure 3.2 shows this increase; the second consecutive year of growth after a three-year period of falling revenues.

**Figure 3.2 Radio industry revenue and spending: 2006-2011**



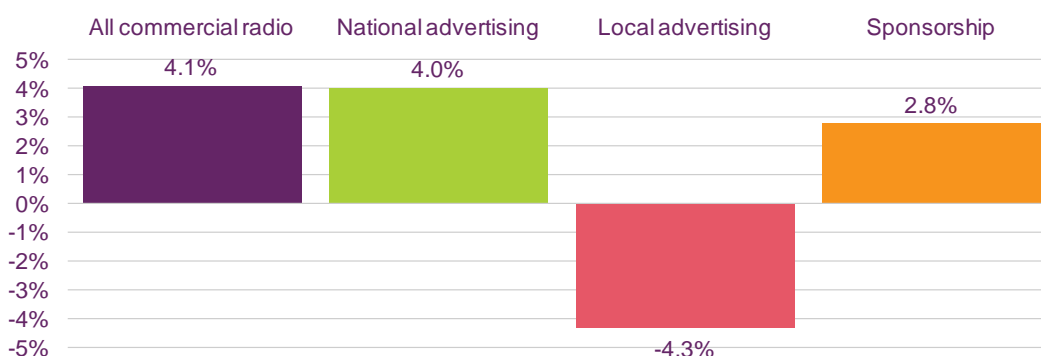
Source: Broadcasters

Note: BBC expenditure figures are estimated by Ofcom based on figures in Note 2c of the BBC Annual Report ([www.bbc.co.uk/annualreport](http://www.bbc.co.uk/annualreport)); figures in the chart are rounded and are nominal. Does not include community radio revenue.

### 4% increase in commercial revenue driven by national advertising and sponsorship revenues

The growth in total commercial revenue has resulted from the increase in national advertising revenues, which rose 4% to £220m. Sponsorship revenues have also risen; by £3m to £92m. Growth in these categories has more than offset the £6m drop to £130m in local advertising revenues.

**Figure 3.3 Commercial revenue percentage change: 2010-2011**



Source: Ofcom/operator data 2010-2011

### Increased expenditure on BBC digital-only stations offset by reduced spend on analogue

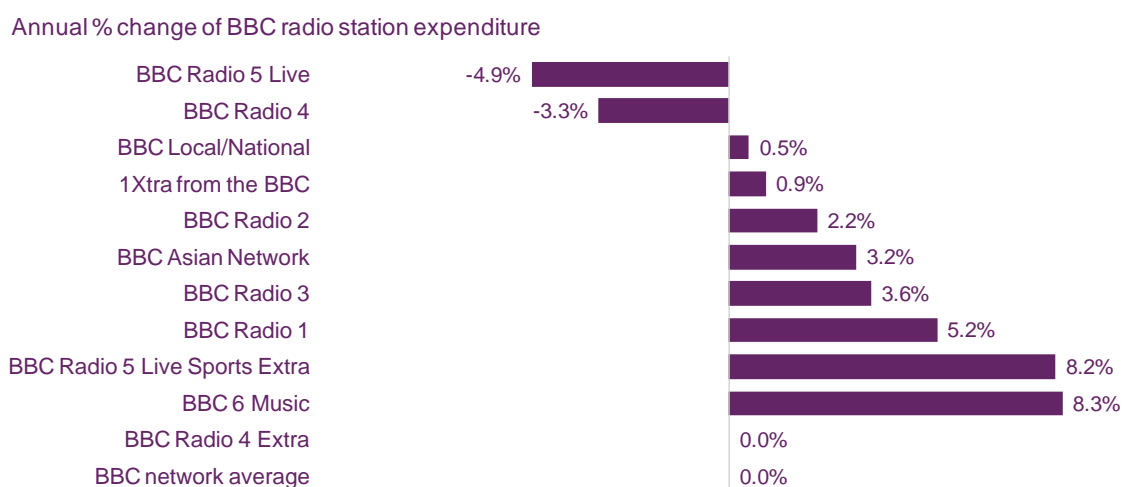
The BBC Annual Report and Accounts provides greater detail on individual station spend. Figure 3.4 shows the percentage change in operating expenditure of BBC radio services

between the financial years ending in the first quarter of 2011 and 2012. As the data in Figure 3.4 are based on the financial year, they are not directly comparable to the data presented in Figure 3.2.

Excluding overheads, BBC radio spend per station as a whole was fairly static, showing a nominal year-on-year increase of £1.2m to stand at £640.1m for the year to Q1 2012. Taken as a whole, expenditure on digital-only stations rose 3.8% to £49.3m. Conversely, expenditure on the BBC's UK-wide stations was lower year on year; declining 0.5% to £348.8m.

Digital-only stations saw the largest increase, with BBC Radio 5 Live Sports Extra and BBC Music both seeing increases in expenditure above 8%. Expenditure on BBC Radio 5 Live and Radio 4 saw the largest declines, falling by 4.9% and 3.3% respectively.

**Figure 3.4 BBC radio stations expenditure change: 2010-11 to 2011-12**

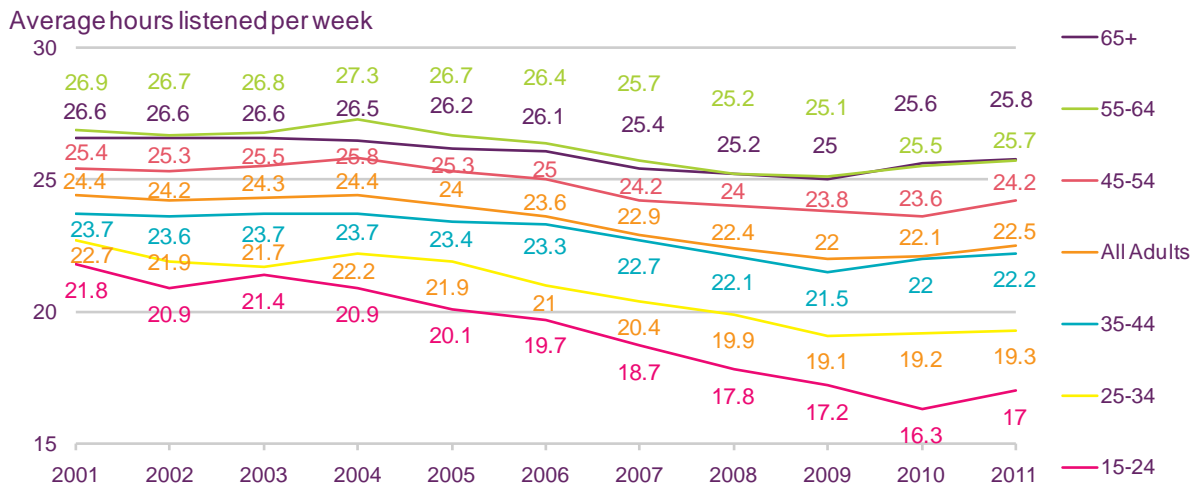


*Source: BBC Annual Report 2011-12. Note that these are financial year figures, excluding BBC-wide overheads, and are therefore not directly comparable to those set out in Section 3.2.2. Figures are nominal. It should be noted that the percentage changes are based on operating expenditure for individual stations based on financial years and they do not include BBC-wide overheads; as such they are not comparable with the calendar year figures that are set out in Section 3.2.2.*

### **3.1.3 Over ten years, the average time spent listening to the radio by 15-24s has fallen by 22%**

Despite year-on-year increases among all age groups in 2011, over the past ten years the average time spent listening to the radio by all listeners has fallen by 7.8% to 22.5 hours. The decline in time spent listening is most pronounced for 15-24 year olds, dropping by 22% to stand at 17 hours in an average week in 2011. (Figure 3.5)

**Figure 3.5 Listening hours, by age group: 2001-2011**



Source: RAJAR, All adults (15+), calendar years 2001-2011

The fall in time spent listening for the 15-24 age group can be explained by the multitude of other devices and services that are able to provide audio content, and their proliferation over the past ten years. Apple’s iPod MP3 player was launched in 2001 and online streaming services continue to grow in popularity, particularly among the younger demographic groups. Figure 3.6 shows how much audio listening is accounted for by radio, comparing all adults and the 15-18 age group. Radio accounts for 26pp less ‘share of ear’ for 15-18s than for all adults.

When assessing these data, it should be noted that the study is based on data from 2009 and 2010. In 2009 ‘other audio’ comprised only strict audio (i.e. with no video element) but in 2010 respondents were also prompted to include music which also had a video element (e.g. music on YouTube, TV music channels etc).

**Figure 3.6 Radio’s ‘share of ear’ 2009-2010, by all adults and 15-18s**



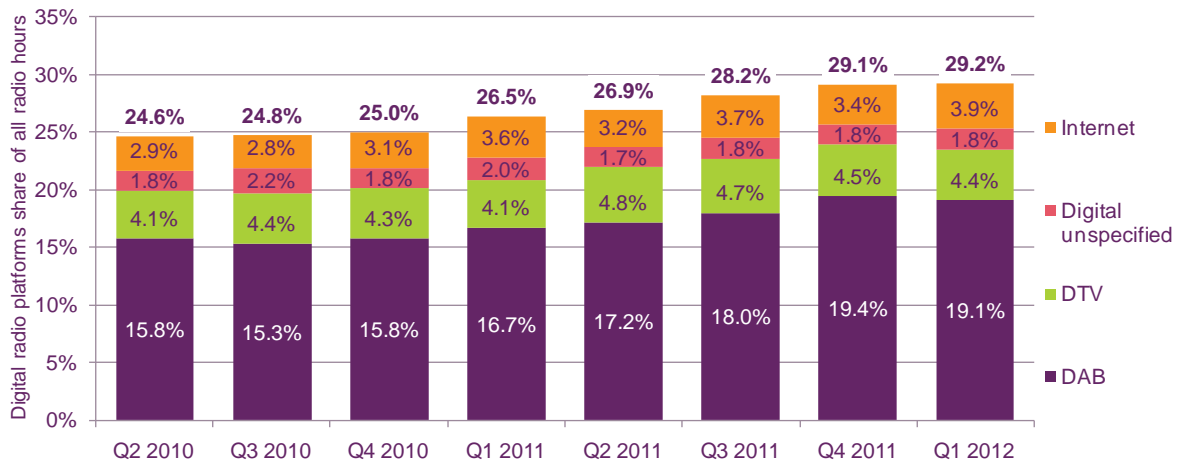
Source: BBC (A&M Audiences)/Brand Driver, Share of Ear research 2009, 2010



### 3.1.4 Listening through a digital platform increased by 2.7pp year on year in Q1 2012

Digital radio's share of listening hours in Q1 2012 was 2.7pp higher than the same quarter in 2011; accounting for 29.2% of all listening hours. Looking at the devices used to listen to digital radio, DAB sets were the most popular, accounting for 19.1% of all radio listening. The proportion of listening through a digital television has remained broadly stable over the past eight quarters (Figure 3.7), although listening online has increased, accounting for 3.9% of radio listening in Q1 2012.

**Figure 3.7 Digital radio's share of radio listening: Q1 2012**



Source: RAJAR

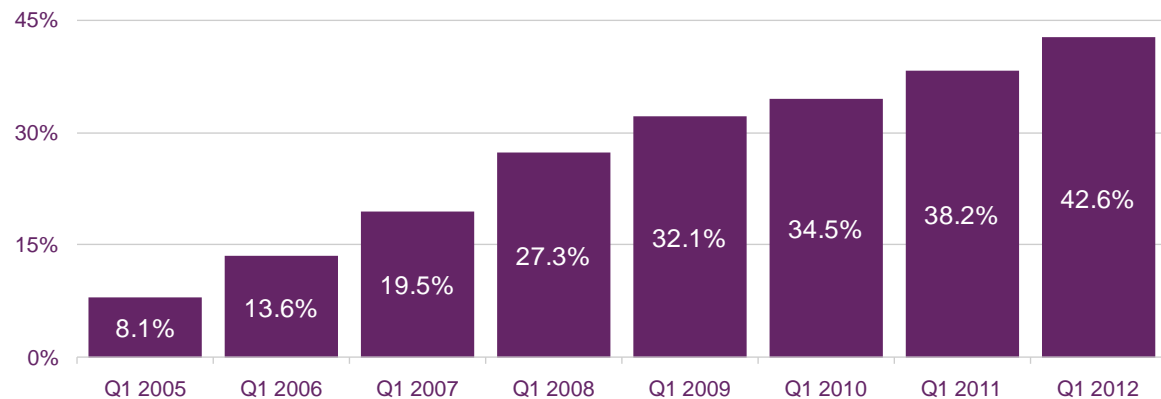
Note: 'Digital unspecified' relates to listening to digital-only stations where the survey respondent has not specified the listening platform used. From Q1 2012 'Internet' has been reclassified as 'Online/Apps'

### More than four in ten adults claim to own a DAB set

Over the year to Q1 2012, adults claiming to have access in the home to a radio set with DAB capability rose by 4.4pp to 42.6%. (Figure 3.8) DAB radio sets are not the only way that consumers can listen to digital radio, and take-up of other devices has also increased.

**Figure 3.8 Ownership of DAB sets: Q1 2012**

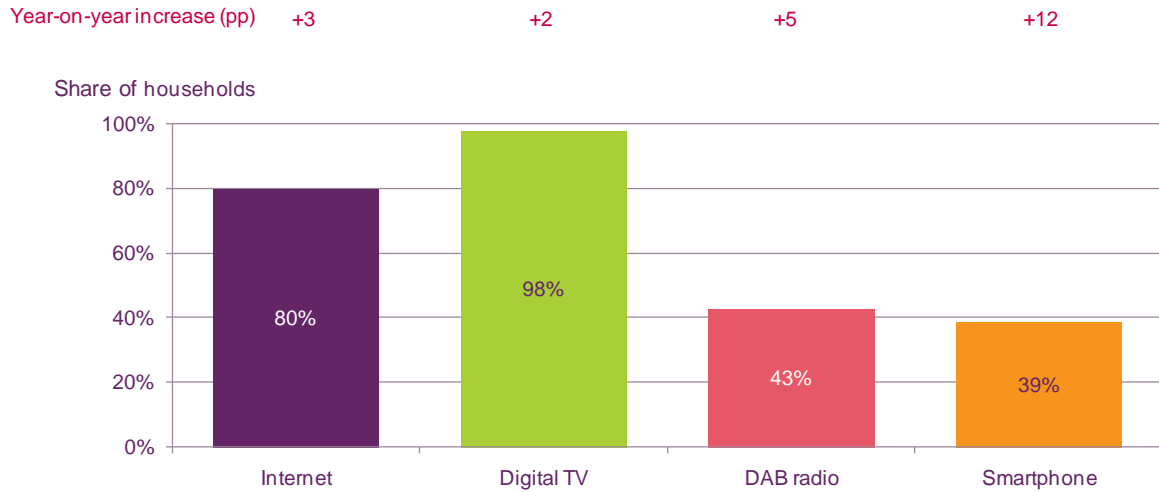
Percentage of adults who claim to own a DAB set / have a DAB set in the home



Source: RAJAR, Ipsos Mori, RSMB

Figure 3.9 shows the take-up of a range of platforms which consumers can use to listen to digital radio. By the end of Q1 2012, 98% of households had a digital television decoder connected to their main television set, capable of providing access to digital radio. Eighty per cent of households had an internet connection, allowing access to radio services online.

**Figure 3.9 Take-up of equipment capable of receiving digital radio: Q1 2012**



Source: Ofcom research, RAJAR Q1 2012

## 3.2 The radio and audio industries

### 3.2.1 Introduction

This section examines the characteristics of the UK radio and audio content industries. It focuses on commercial and community radio station revenue and BBC radio expenditure, together with the main players' audience shares.

Key points in this section include:

**Total UK radio industry revenue was £1.16bn in 2011, up by 3.5% in a year.** Commercial radio revenue increased to £456m for 2011, the second consecutive year of growth. Growth was driven by national advertising revenues, which rose 4.0% to £220m. This compares to TV industry revenue of £12.3bn for the same year.

**The average income for a community radio station fell by 8.3% to £60,250.** The main source of community radio income is grants (33% of average income), followed by advertising and sponsorship (26% of average income). Total revenue for the sector increased by 5% to £10.5m – driven by the increased number of community radio stations broadcasting.

**Recorded music revenues fell by 4.4% in 2011.** Revenues from digital music sales increased by 12%, but sales from physical music fell further than the rise from online sales. Digital sales accounted for 33% of recorded music revenue, a 7pp increase on 2010. Sales of singles increased by 10%, with almost all of these sales in digital format.

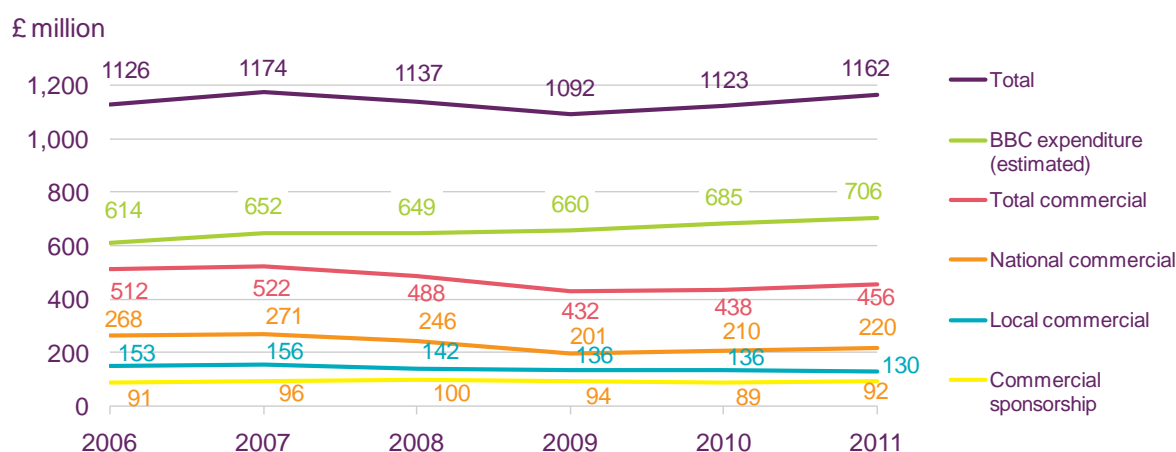
### 3.2.2 Radio industry revenues and expenditure

**Radio revenue increased by 3.5% in 2011 to reach £1.16bn**

We estimate that total radio industry income (commercial radio revenue and BBC expenditure on radio services) in 2011 stood at £1.16bn, up by 3.5% year on year, the second consecutive year of growth. Estimated spending by the BBC on its radio services was £706m in 2011, up from £685m in 2010.

Commercial radio revenues have increased in 2011, rising from £438m to £456m – growth of 4% year on year. National advertising sales and sponsorship are responsible for this increase, rising 4% to £220m and 2.8% to £92m respectively. Local advertising sales fell by 4.3% to £130m.

**Figure 3.10 UK commercial radio revenue and BBC radio spending**



Source: Ofcom / operator data / BBC Annual Report 2006-2011

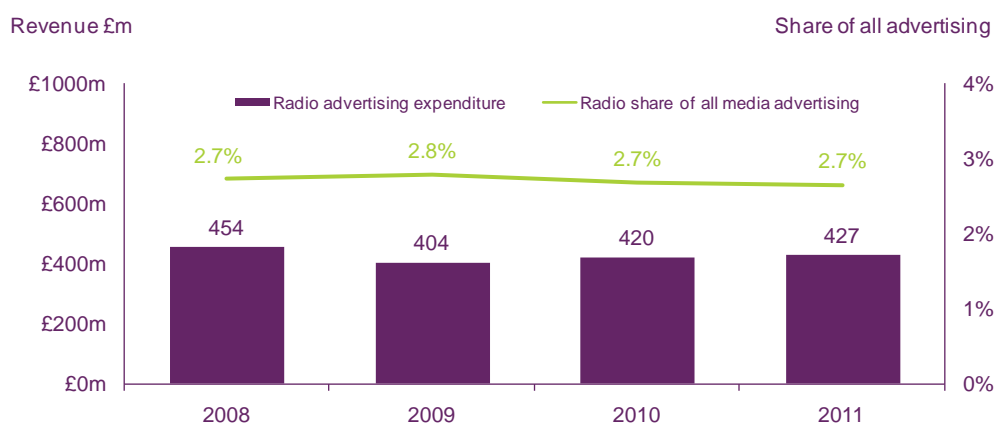
Note: BBC expenditure figures are estimated by Ofcom based on figures in Note 2c of the BBC Annual Report ([www.bbc.co.uk/annualreport](http://www.bbc.co.uk/annualreport)); figures in the chart are rounded and are nominal.

**Radio advertising expenditure increased in 2011 but its share of display advertising remains stable**

Radio advertising expenditure, as reported by the Advertising Association/Warc, showed a nominal increase of 1.6% to £427m in 2011. This is the second consecutive year of annual growth in radio advertising expenditure. Total advertising expenditure in the UK also increased (by £418.7m to £16.1bn) and radio's share of this advertising spend in 2011 was stable at 2.7%.

Note that the data set out in Figure 3.11 represent advertising expenditure sourced from the AA/Warc, whereas the advertising income data presented in Figure 3.10 are collected by Ofcom and represent advertising spend net of any production and agency fees.

**Figure 3.11 UK radio advertising spend and share of display advertising: 2008-2011**



Source: AA/Warc Expenditure Report. Figures are nominal.

**Commercial radio revenue per listener increased by 22 pence in 2011**

For the first time in three years, commercial revenue per listener has increased, rising 1.7% to £13.55. Figure 3.12 shows revenue per listener by dividing the total net broadcasting revenue by the average weekly listening reach. Commercial radio reach increased by 2.5% between 2010 and 2011, and total listening hours increased by 3.7%. Increases in listening

are likely to be followed by increases in revenues as airtime sales, particularly at the national level, are based on the current number of impacts the commercial message makes on a given target audience.

**Figure 3.12 Commercial radio revenue per listener**



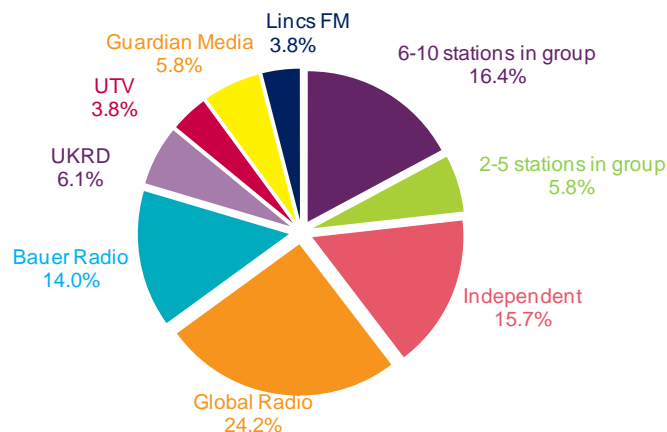
Source: Broadcasters/RAJAR 2006-2011. Figures are nominal.

### 3.2.3 Radio sector market shares in 2011

After the significant consolidation among commercial radio groups in recent years, there were no major ownership consolidations in 2011. In 2011, the industry focused on the development of umbrella brands among local commercial stations. Global Radio’s Heart and Capital brands were rolled out to some 30 local radio stations across the UK, and GMG’s Smooth Radio regional analogue stations were authorised to operate as nationally networked services. In June 2012, subject to regulatory review by the Office of Fair Trading, GMG Radio was acquired by Global Radio.

Global Radio is the largest group in the commercial radio market by number of FM and AM licences held, accounting for almost a quarter (24.2%) of all those in issue. It should be noted that the size of licences, as measured by the size of population each covers, varies considerably across the radio sector. Bauer Radio Group is the second largest, with 14% of all commercial analogue radio licences.

**Figure 3.13 Number of commercial analogue licences owned, by group**

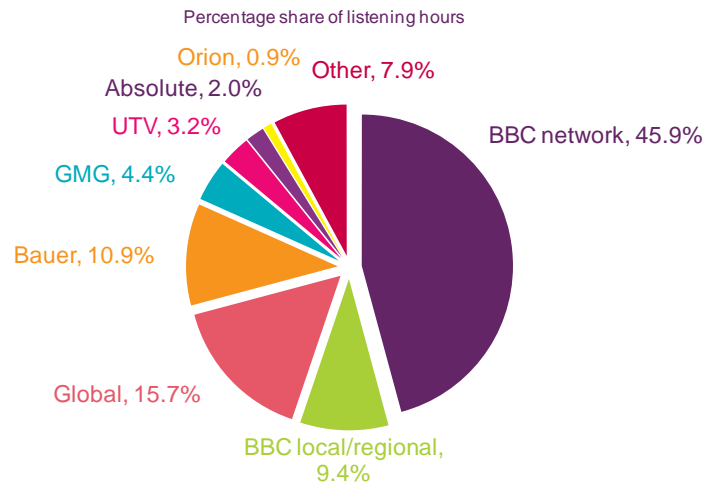


Source: Ofcom, April 2012

## BBC radio services accounted for 55% of all radio listening in Q1 2012

The BBC's share of all radio listening was 55.4% in Q1 2012, in line with its share in earlier years. BBC network radio accounted for a 45.9% share, with BBC local and nations attracting a further 9.4%. Global Radio and Bauer Radio, the two largest commercial radio groups, were responsible for 26.6% of all radio listening in Q1 2012. This represents 59.5% of all commercial radio listening, a 3pp fall on Q1 2011.

**Figure 3.14 Share of all radio listening hours: Q1 2012**



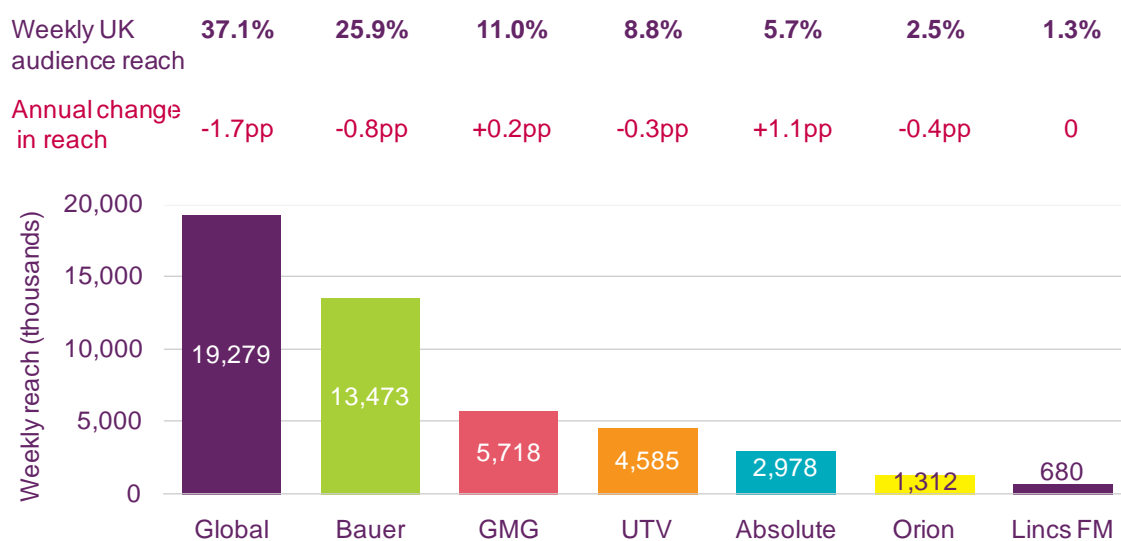
Source: RAJAR, (all adults 15+), Q1 2012, does not include community radio listening

## Commercial radio reach fell by 2.1pp year on year

Commercial radio's weekly reach stood at 63.9% in Q1 2012, a 2.1pp fall from the same period in 2011. Within the commercial radio sector, national commercial stations' weekly reach rose by 3.6pp to 30.6%, and local commercial stations' weekly reach stood at 51.1%. Figure 3.15 shows that four of the seven largest commercial groups in the UK saw their reach fall in Q1 2012. The largest groups, Global Radio and Bauer, experienced the biggest falls. Global saw its reach fall 1.7pp to 37.1% (19.3 million adults) and Bauer saw a smaller percentage point difference of 0.8pp to 25.9%, (13.5 million adults).

Absolute Radio saw the largest increase of any group, experiencing a rise of 1.1pp. Absolute is now reaching almost 3 million adults on an average week. An additional 754,000 listeners tuned into an Absolute station in comparison with Q1 2011, an increase partly explained by the extension of the Absolute brand. Alongside the existing decade-themed radio stations in its portfolio, Absolute 60s and Absolute 70s were launched in the second half of 2011, together attracting 308,000 listeners in Q1 2012.

**Figure 3.15 Commercial radio, by weekly audience reach: Q1 2012**



Source: RAJAR, (all adults 15+), Q1 2012, does not include community radio listening

### 3.2.4 BBC radio services in 2011-12

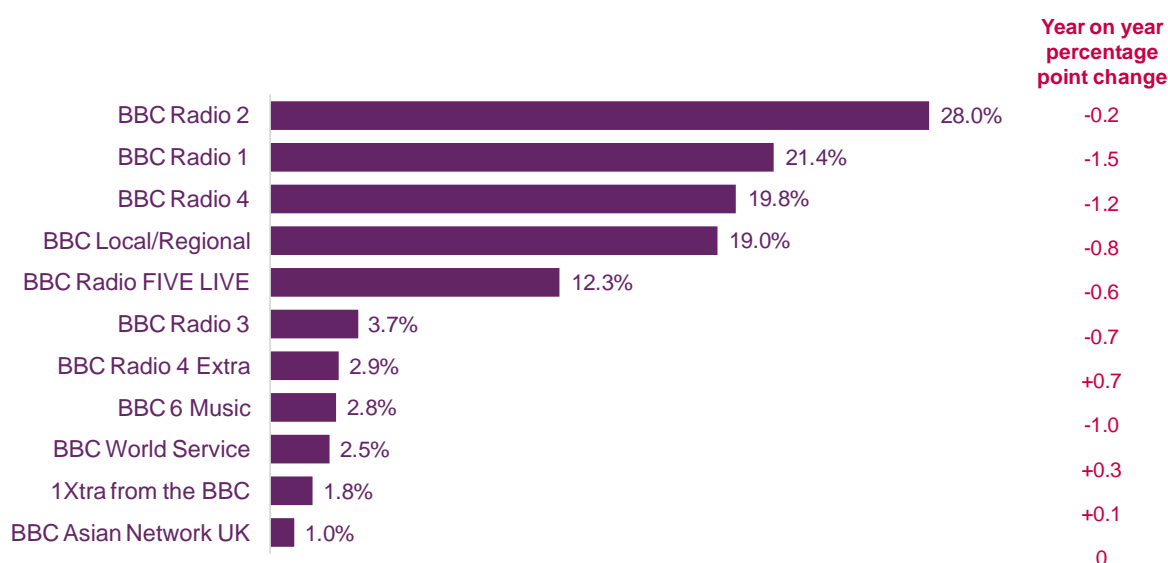
BBC Radio's 55.4% share of all radio listening in Q1 2012 was accompanied by a collective weekly reach of 66.6% of the adult population for the full year 2011. Excluding BBC-wide overheads, the services received £640.1m of funding in 2011-12. The BBC radio portfolio is made up of two components: BBC local and nations' stations, which include all BBC local and regional stations in England and Northern Ireland and the national stations for Scotland and Wales; and BBC network stations which cover the whole of the UK. Some BBC network stations are available exclusively on digital radio.

#### BBC Radio 2 remains the UK's most listened-to radio station

Despite a 0.2pp fall in reach, BBC Radio 2 attracted the most listeners of any station, reaching 28% of the UK population. BBC Radio 1 remains the second most popular station and also saw a decline in reach (1.5pp) to 21.4%.

The reach of digital stations BBC Radio 4 Extra and BBC 1Xtra rose year on year. BBC Radio 4 Extra, which changed its name from BBC 7 during 2011, saw the largest increase of all BBC stations (0.7pp). The collective reach of BBC local/nations stations fell by 0.8pp to 19%.

**Figure 3.16 Weekly reach of BBC stations: Q1 2012**



Source: RAJAR, all adults 15+, Q1 2012

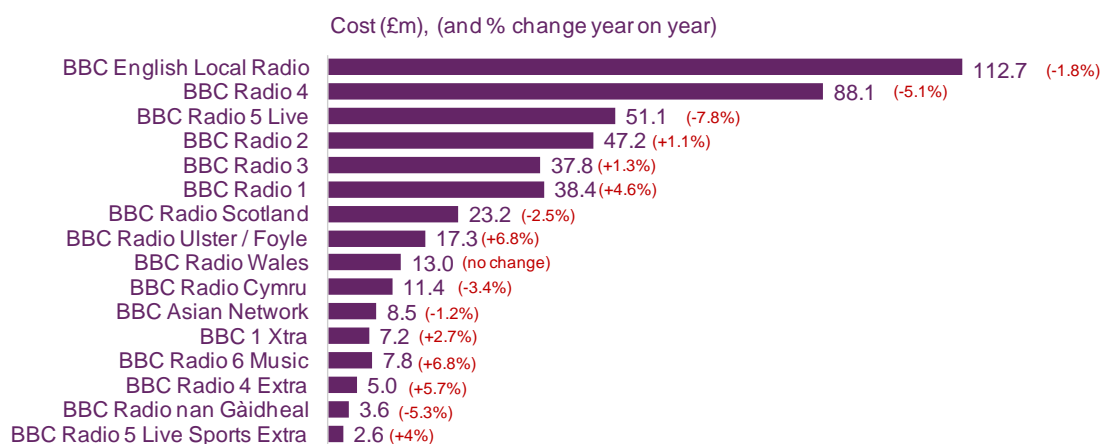
**Expenditure on BBC Radio content fell 1.8% in 2011-12**

BBC Radio content spend fell from £483.4m in 2010-11 to £474.9m in 2011-12, a decline of 1.8% over the period. BBC Radio 5 Live saw the largest fall in content spending with a 7.8% decrease to £51.1m. BBC 6 Music and Northern Ireland's Radio Ulster and Radio Foyle services saw the largest proportionate increases with increases of 6.8%.

As has been the case in previous years, BBC Radio 4 had the largest content spend of any individual BBC station, standing at £88.1m after a budget contraction of 5.1%. The lowest spend came from digital-only station BBC Radio 5 Live Sports Extra, at £2.6m.

Please note that the figures in Figure 3.17 cover radio content only; they exclude radio infrastructure, distribution expenditure and BBC-wide overheads.

**Figure 3.17 BBC Radio stations' spend on radio content: 2011-12**



Source: BBC Annual Report 2011-12



### 3.2.5 Radio licences

There are 296 analogue local commercial radio licences in issue (242 on FM and 54 on AM). Many of the services provided under these licences share programming; for example, all of the 23 Gold services on AM carry the same programming. Shared programming across licences has increased in 2011 as the large groups have focused on the development of their brands. Global Radio's Heart and Capital brands have been rolled out to 30 local radio stations across the UK, while three Kiss FM and five Smooth Radio regional analogue stations were authorised by Ofcom to operate as nationally networked services, provided that the programming was made available via DAB nationally.

On analogue, there are three national commercial stations available (talkSPORT and Absolute Radio on AM, and Classic FM). These stations are also available on the Digital One DAB multiplex, which covers England, Scotland and Wales. In Northern Ireland, talkSPORT and Classic FM are available on the local DAB multiplex, alongside seven other services.

The number of digital-only services has grown over the past year, although the number of digital commercial stations available nationally has remained at 13. Absolute Radio has extended its brand in recent years, broadcasting on DAB as its primary platform. Absolute 60s and Absolute 70s launched during the second half of 2011, added to the number of Absolute stations which are available across much of the UK on local DAB multiplexes.

As well as the Digital One national multiplex, there are 46 local digital multiplexes. Services available on these tend to be simulcasts of local stations, quasi-national services (which are available on some multiplexes but not all) and digital-only services.

There were 198 community radio stations broadcasting at the end of May 2012. Community radio licences are awarded to small-scale operators working on a not-for-profit basis to serve local areas or specific communities. Stations offer a range of benefits to their target communities, including training, and volunteering opportunities. A total of 254 licences have been awarded over three licensing rounds (of these, 28 licences have subsequently been handed back). Ofcom's third round of community radio licensing commenced in April 2011, and 26 licences were awarded in the year to the end of May 2012. These were to applicants in the south-west of England and Wales. Applications for locations in Scotland and Northern Ireland are being considered.

**Figure 3.18 UK radio stations broadcasting on analogue, May 2012**

Type of station	AM	FM	AM/FM total
Local commercial	54	242	296
UK-wide commercial	2	1	3
BBC UK-wide networks	1	4	5
BBC local and nations	36	46	46
Community radio	6	192	198
<b>TOTAL</b>	<b>99</b>	<b>446</b>	<b>548</b>

Source: Ofcom, May 2012

### 3.2.6 Community radio

#### Community radio average income per station fell 8.3% in 2011 to £60,250

The main source of community radio income is grants from bodies including the Community Radio Fund, The Arts Council, the Ministry of Defence, local authorities and the National Lottery. Average (mean) income per station stood at £60,250 in 2011. This is 8.3% less than the estimated £65,750 per station in 2010. (Figure 3.19) The median income (the value at the mid-point in the distribution of incomes) is considerably lower than the average, as in previous years. This is because a small number of stations generate a significant proportion of the sector's income.

**Figure 3.19 Average income for community radio stations: 2008-2011**

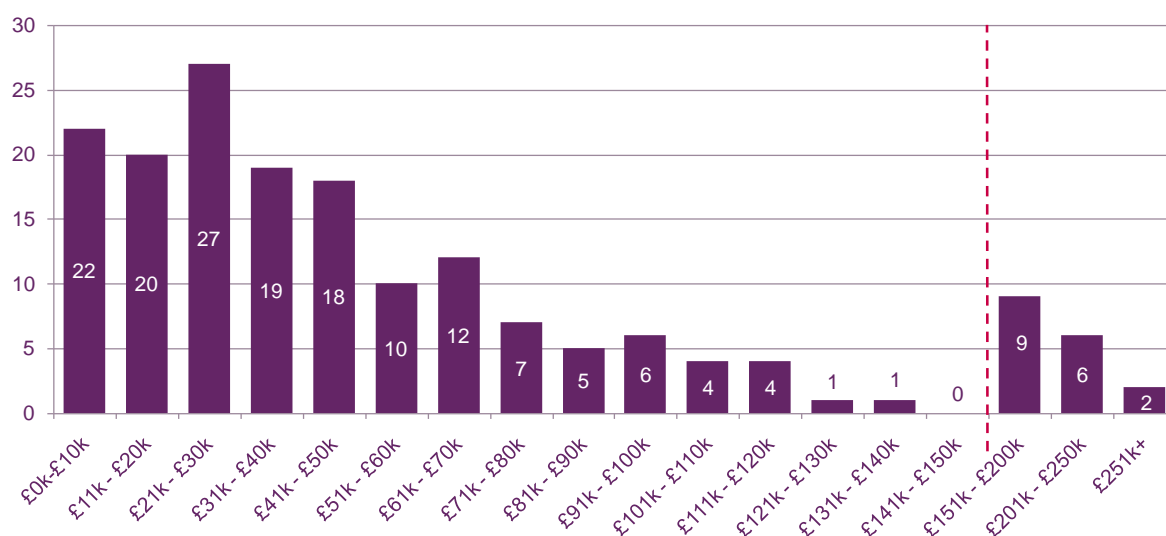
Income	2008	2009	2010	2011
Average (mean) income	£84,000	£75,500 (-10.2%)	£65,750 (-12.9%)	£60,250 (-8.3%)
Median income	£53,750	£46,750 (-15.0%)	£42,500 (-7.14%)	£40,500 (-4.8%)

Source: Ofcom analysis of community broadcasters' returns

Note: Prior to 2011, the reported period for community radio stations covered the financial year. The reported period is now the calendar year and previous data have been adjusted to take account of this.

As Figure 3.20 shows, only two stations reported income in excess of £250,000 in 2011, although 17 stations reported income over £150,000. The majority of stations report a lower level of income, with 42 stations (24% of the 176 stations reporting in this period) reporting income of £20,000 or less. The general distribution of income levels is broadly similar to the previous reporting period, although there has been an increase in stations reporting income levels above £150,000 (17 in 2011 compared to 12 in 2010-11).

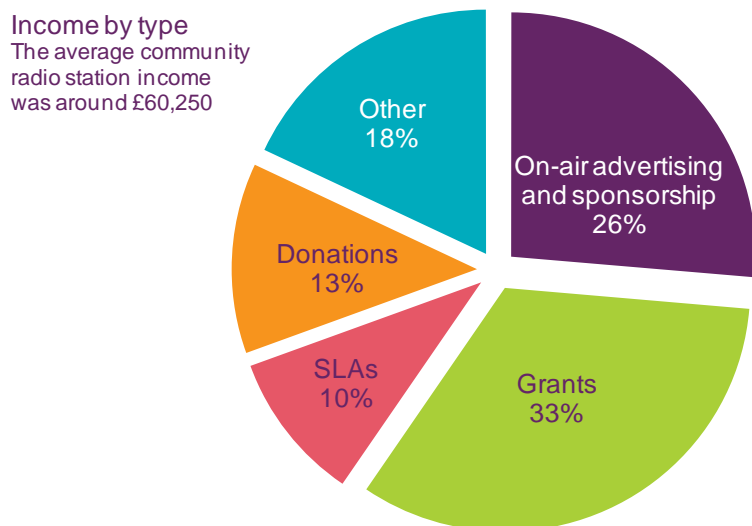
**Figure 3.20 Distribution of total income levels across the community radio sector**



Source: Ofcom analysis of community broadcasters' returns

Figure 3.21 shows the distribution of funding sources for the average station, although it should be noted that there can be quite a wide variation in these sources across operators. The share of total industry income originating from grants fell by 4pp year on year, accounting for 33% of all funds in 2011. The sale of on-air advertising and sponsorship accounted for 26% of income, 5pp more than in 2010 (21%). In real terms, this is a 12% increase, with income for this source rising from £14,250 to £16,000. The proportion of funding which originated from service level agreements, donations and other sources remained broadly similar year on year.<sup>83</sup>

**Figure 3.21 Community radio income, by source**



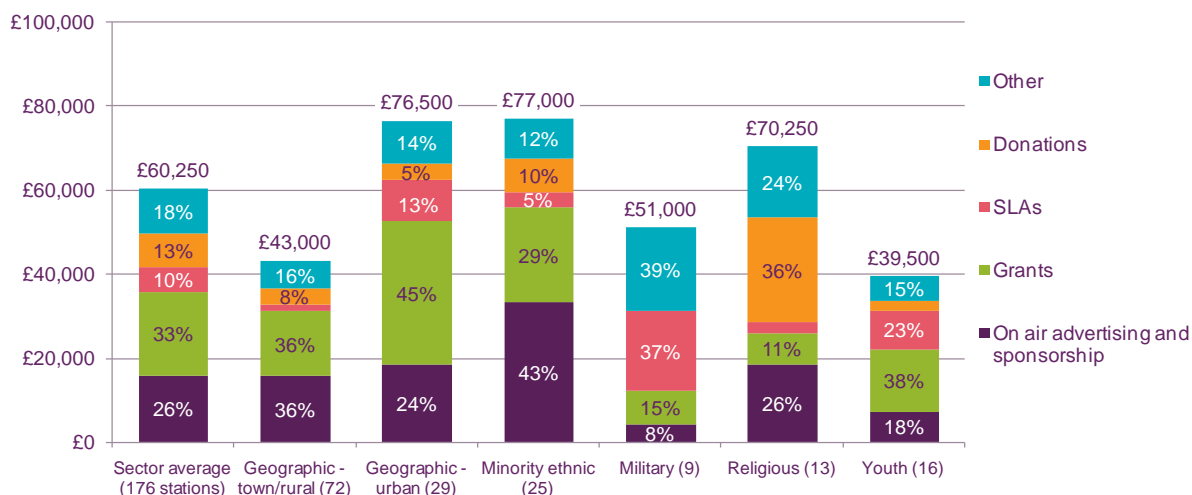
Source: Ofcom analysis of community broadcasters' returns

Looking at the average income and the sources of income by the type of community served shows how varied income levels and income sources are across the community radio sector.

<sup>83</sup> Service level agreements (SLAs) involve the stations broadcasting output of social benefit on behalf of other organisations, such as the local council, in return for funding.

Figure 3.22 shows that stations targeting minority ethnic communities receive most of their income (43%) from on-air advertising and sponsorship. This is a far higher proportion than the sector average of 26% for this income source. Donations feature prominently as a source of income for stations targeting their broadcasts at religious communities (36%).

**Figure 3.22 Average income, by type of community served**



Source: Ofcom analysis of community broadcasters' returns

### Average community radio expenditure is higher than income

The average expenditure per station for the community radio sector in 2011 was higher than the average income. As is the case with the average income figures, it should be noted that there is a wide variation in the proportion of these types of expenditure across operators. Reported expenditure has been declining as income levels have fallen, indicating that stations have been cutting costs. For 2011, average expenditure declined by 4.1% to £64,250 and the median expenditure fell by 4.9%. (Figure 3.23)

**Figure 3.23 Average expenditure of community radio stations: 2008-2011**

Expenditure	2008	2009	2010	2011
Average (mean) expenditure	£86,500	£76,500 (-11.4%)	£67,000 (-12.3%)	£64,250 (-4.1%)
Median expenditure	£55,000	£52,250 (-5.3%)	£43,000 (-17.5%)	£41,000 (-4.9%)

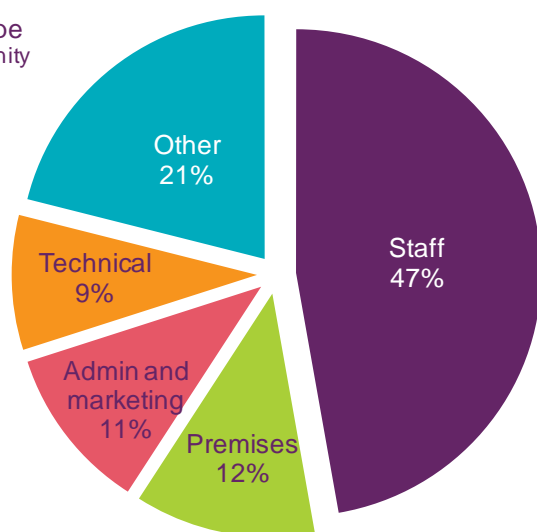
Source: Ofcom analysis of community broadcasters' returns

Note: Prior to 2011, the reported period for community radio stations covered the financial year. The reported period is now the calendar year and previous data have been adjusted to take account of this.

As in previous years, staff costs remain the most significant cost borne by community radio stations, accounting for 47% of total costs in 2011. (Figure 3.24) This is slightly lower than in 2010, where staff costs accounted for 51% of total spend. Of the 176 stations reporting in 2011, 48 did not employ any paid staff.

**Figure 3.24 Community radio expenditure, by type**

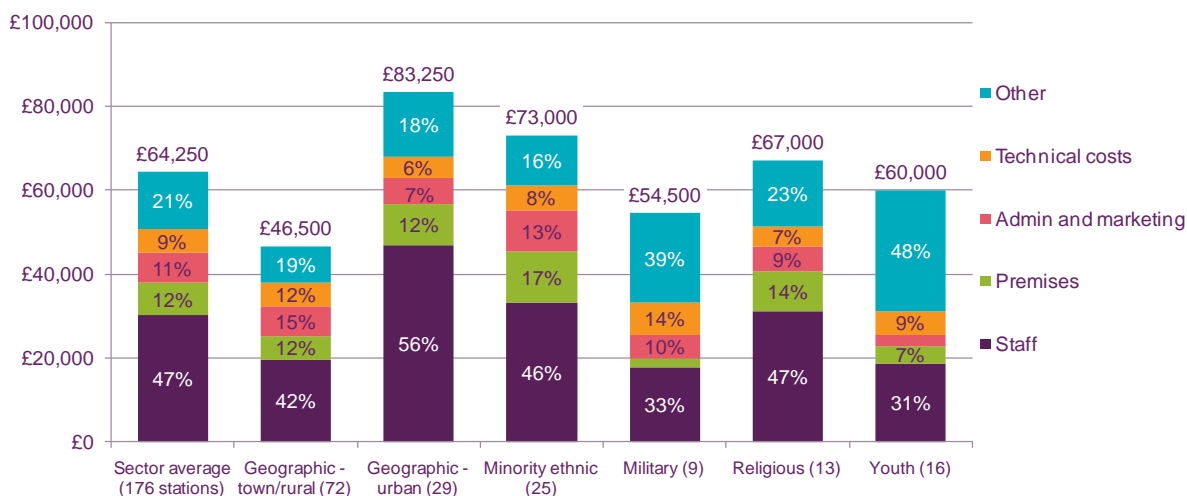
Expenditure by type  
The average community radio station income was around £64,250



Source: Ofcom analysis of community broadcasters' returns

Station costs, like income, vary on the type of community served, as Figure 3.25 shows. However, with the exception of stations targeting military communities, staff costs account for the bulk of all stations' expenditure.

**Figure 3.25 Average expenditure, by type of community served**



Source: Ofcom analysis of community broadcasters' returns

**On average, community radio stations broadcast live for 84 hours each week**

Community radio services in general rely on volunteers. This means that few will broadcast live 24 hours a day, seven days a week. During 2011, the average across the sector was 84 hours per week. For original content, the average across the sector was 91 hours per week. (Figure 3.26)

**Figure 3.26 Community radio hours and volunteers**

	Sector average
Total live hours per week	84
Total original hours per week	91
Speech output as a percentage of total daytime output	31%
Number of volunteers	68

Source: Ofcom analysis of community broadcasters' returns

Please note that the reported period for community radio stations previously covered the financial year (April – March), but from 2011 the reported period is now the calendar year. Comparisons between 2011 and previous years are based on historic figures which have been adjusted to account for this change. Ofcom will publish further analysis of the returns submitted by the community radio sector in autumn 2012.

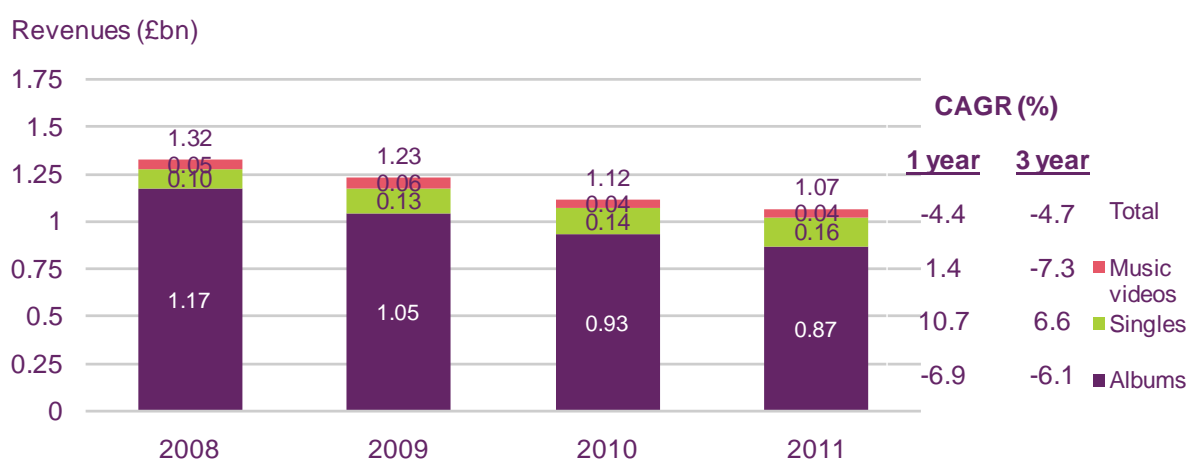
### 3.2.7 Recorded music revenues

#### Recorded music revenues continued to fall in 2011

Total recorded music revenues fell by 4.4% in 2011, according to data from the Entertainment Retailers' Association. This is lower than the 8.9% year-on-year decline in the previous year, suggesting that the revenues generated from the sale of digital music are beginning to offset the reduction in revenue from physical sales.

The value of album sales, which make up over 80% of the total recorded music revenue, fell by 6.9%. As in previous years, the value of singles sales continued to rise in 2011. This increase is driven by online retailers selling individual tracks; consumers no longer have to buy an entire album.

**Figure 3.27 Recorded music retail revenues: 2008-2011**

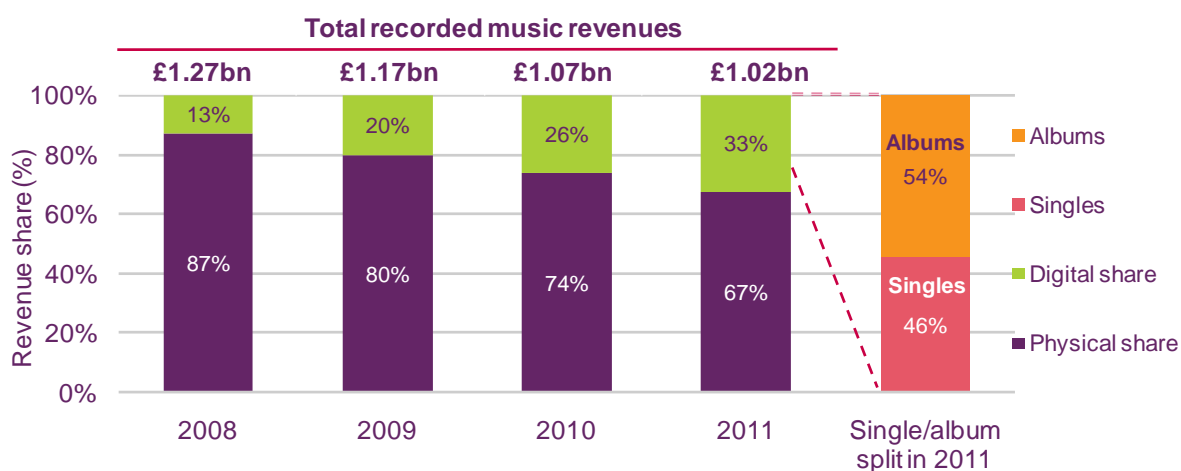


Source: Entertainment Retailers' Association yearbook, 2012. Figures are nominal

## Digital sales accounted for a third of music retail revenue in 2011

Digital's share of recorded music revenues increased again in 2011 to reach 33% of the total, up 7pp year on year. Within the digital total, album sales accounted for 54% of digital revenue, up from 47% in 2010. Although physical sales still account for the bulk of recorded music revenues, its share continues to decline.

**Figure 3.28 Distribution of recorded music retail revenues: 2008-2011**



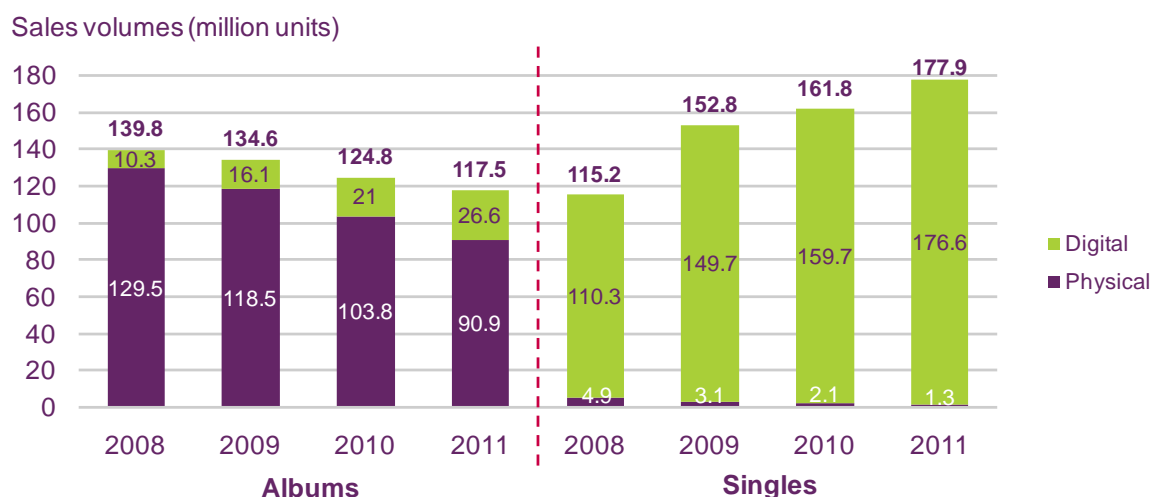
Source: Entertainment Retailers' Association yearbook, 2012  
 Note: This chart does not include revenues from music videos.

## The volume of singles sales continued to rise as album sales fell to 118 million units

The volume of singles sales continued to rise in 2011, increasing by 10% to reach 177.9 million units. In 2011 over 99% of all singles sales were digital. As the volume of singles sales has increased, the proportion of this volume which is physical has declined.

In contrast to singles sales, the volume of album sales has fallen by 5.8% to 117.5 million units. Digital album sales increased in 2011, but this growth has not offset the continued decline in physical album sale volumes (falling 12.4%). In contrast to singles sales volumes, physical sales still account for the majority (77%) of total album sales volumes.

**Figure 3.29 Recorded music sales, by volume: 2008-2011**

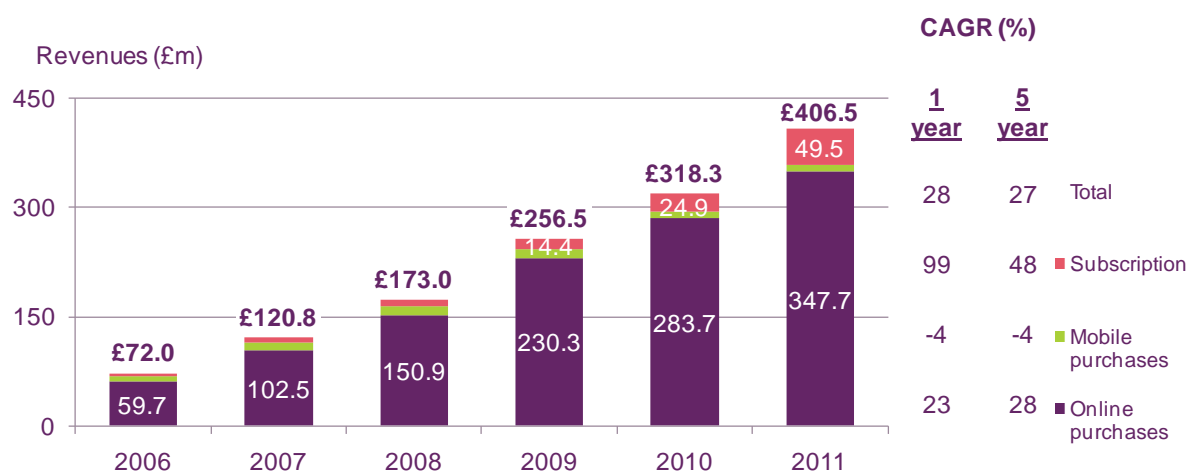


Source: Entertainment Retailers' Association yearbook, 2012. Figures are nominal.

**Digital music revenues continue to rise, driven by a 23% increase in online transactional revenues**

With the exception of mobile purchases, where revenues fell by 4% year on year, digital music revenues increased across the board. Online purchases, which includes downloads of albums and single tracks, generated the most income, accounting for 85.5% of all consumer spending on digital music. Digital music sales on mobile platforms have a smaller share of digital music revenues, accounting for 2.3% of the total. Subscriptions to streaming services (such as Spotify) have grown in popularity in recent years and revenues from these services almost doubled in 2011, rising 99% from £24.9m to £49.5m.

**Figure 3.30 UK consumer spending on digital music: 2006-2011**



Source: Screen Digest. Subscription revenues relate to access subscriptions. Services which offer a permanent right of use to content are classified as 'purchases'.

Note: Due to different data sources this chart is not directly compatible with previous charts. Figures are nominal.



## 3.3 The radio and audio listener

### 3.3.1 Introduction

The following section examines how patterns of radio and audio listening have changed in the UK, both in the past year and over the longer term. It uses audience data to analyse listening by sector and by age group, as well as drawing on consumer research.

Key points in this section include:

**On average, 89.8% of the UK population tuned in to the radio each week in the twelve months to Q1 2012.** This is a year-on-year decrease of 1.8pp from the record weekly reach figure recorded by RAJAR for the same period in 2011.

**On average, radio listeners in the UK listened to 22.6 hours of radio each week in the year to Q1 2012.** Time spent listening has increased year on year by 0.2 hours. Adults aged 75+ listen to the most radio each week, with 15-24s listening to the least. Over the past ten years, time spent listening fell by 22% among the 15-24s and now stands at an average of 17 hours each week.

**BBC network stations account for 46% of listening hours while national commercial stations share of listening continued to grow.** The national commercial sector has seen consecutive increases in its share of listening since 2009, rising to 11.8% in 2011.

**The popularity of BBC local/nations stations has fallen over the past five years.** BBC local/nations stations share of listening dropped by 1.2pp to 8.7% between 2007 and 2011.

**BBC Radio 4 Extra attracted the most listeners of any digital-only station.** Formerly BBC Radio 7, BBC 4 Extra's average weekly reach increased by 29.6% to 1.5 million adult listeners in Q1 2012, making it the UK's most popular digital-only station.

### 3.3.2 Weekly radio reach in the UK

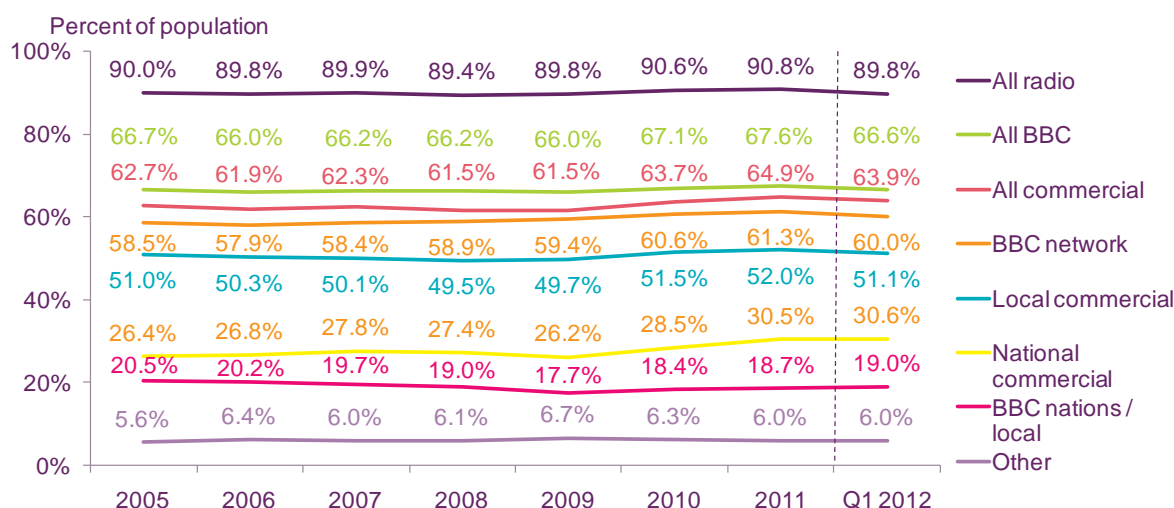
**Weekly radio reach increased from 2010 to 2011, but has fallen slightly in Q1 2012**

In the twelve months to Q1 2012, average weekly reach for all radio stood at 89.8%, a decrease of 1.8pp on the record 91.6% of adults reached in the twelve months to Q1 2011. Radio reached 90.8% of the adult population in an average week in 2011, up 0.2pp on 2010.

Reach for national commercial stations continued to rise, up 2pp year on year to 30.5% in 2011. Local commercial stations have a significantly higher reach than national stations, being heard by over 50% of UK adults, although comparing Q1 2012 to the same period last year reveals a drop of 1.8pp. The commercial sector overall reached 63.9% of the population in Q1 2012, attracting 33.2 million UK adults on an average week.

All BBC reached 66.6% of the adult population in an average week in this period, with BBC network stations reaching 60% of UK adults.

**Figure 3.31 Reach of radio, by sector**



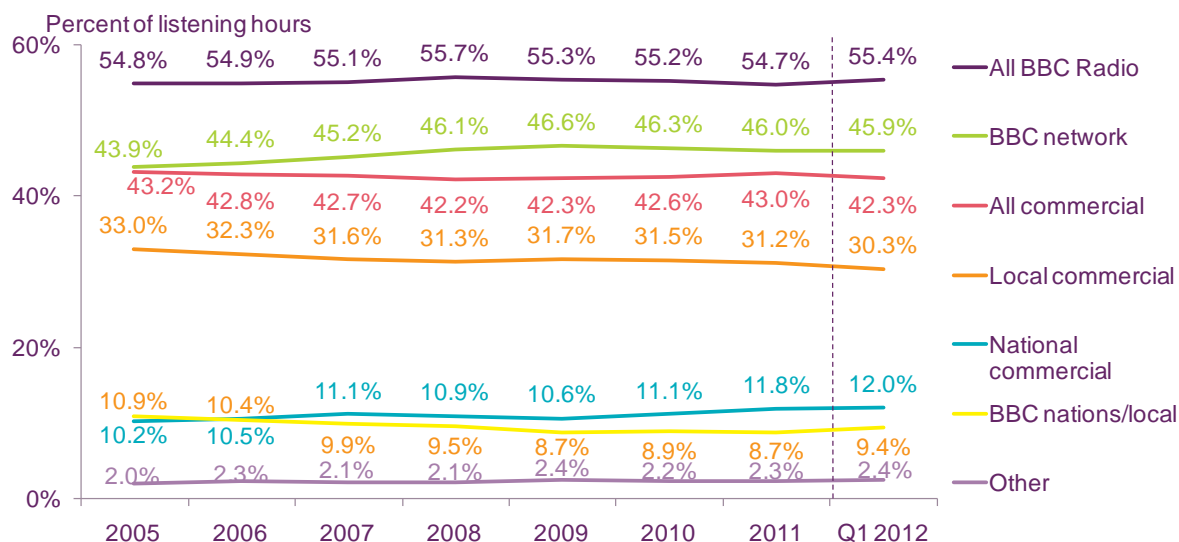
Source: RAJAR, All adults (15+), calendar years 2005-2011, Q1 2012

### 3.3.3 Listening hours

**The BBC's share of listening remains stable at 55.4% while national commercial's share continues to rise**

The share of listening hours for each sector has remained broadly similar year on year, with the BBC accounting for 55.4% of listening in Q1 2012 (up 0.4pp from Q1 2011) and commercial stations claiming 42.3% of all radio listening (down 0.3pp from Q1 2011). The national commercial sector has seen consecutive increases in its share of listening since 2009, rising to 12% in Q1 2012.

**Figure 3.32 Share of listening hours, by sector**



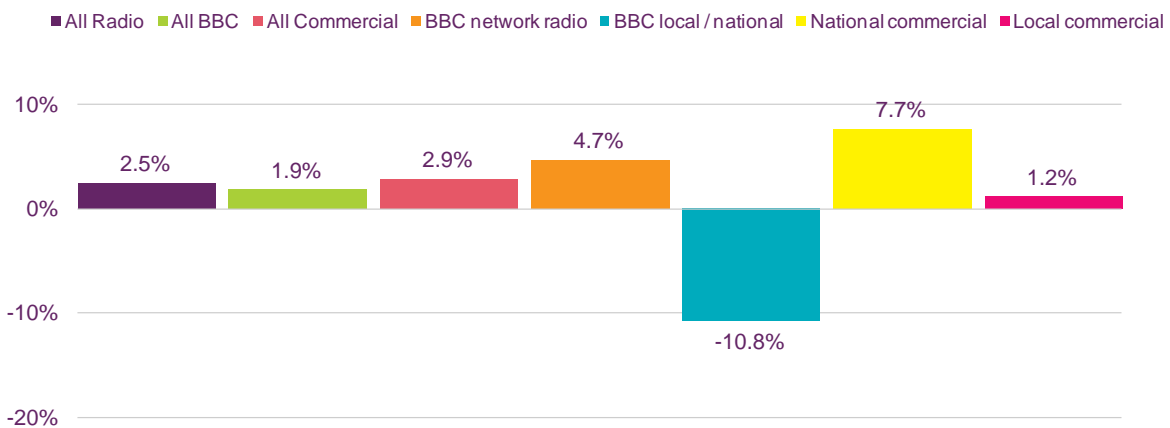
Source: RAJAR, All adults (15+)

## The popularity of BBC local/national stations has fallen over the past five years while total radio listening has increased

Looking at the five-year trend, the overall number of total listening hours has increased. With the exception of BBC local/national, which has fallen by 10.8%, all sectors have seen increases in listening from 2007 to 2011. Listening to national commercial radio increased the most (by 7.7%), most likely due to the greater choice of national stations available on digital radio.

**Figure 3.33 Change in total listening hours, by sector: 2007-2011**

Percentage change in listening hours



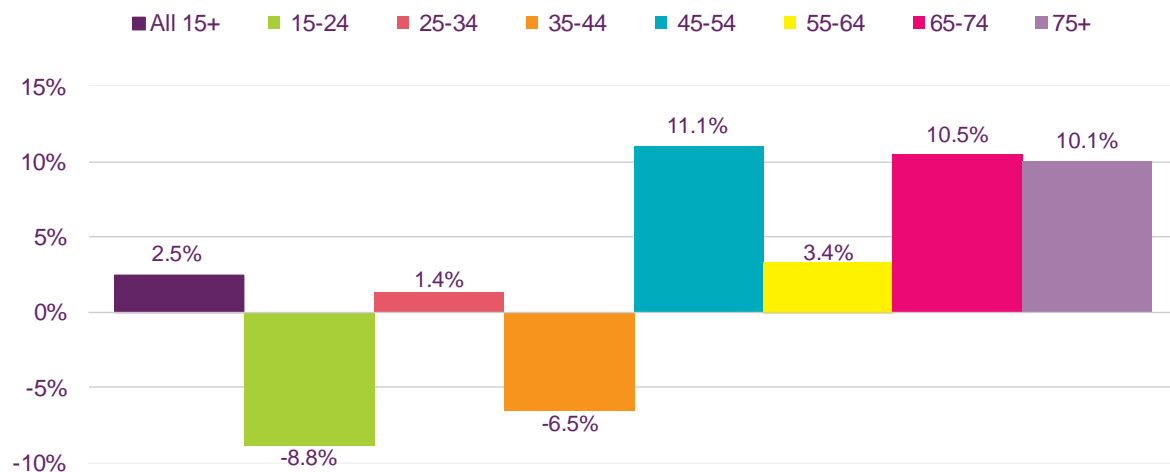
Source: RAJAR, All adults (15+), calendar years 2007 and 2011, total listening hours

## Increase in listening hours is driven by the over-44s

As Figure 3.34 shows, growth in listening hours from 2007-2011 is driven by listeners aged 45 and over. The largest increase comes from those aged 45-54 (11.1%), but ages 64-74 and 75+ have also shown increases of over 10%. The largest decline is evident in the 15-24s (8.8%). A small increase in listening is evident in the 25-34s, (1.4%), the only age group below 44 showing an increase in listener hours.

**Figure 3.34 Change in total listening hours, by age: 2007-2011**

Percentage change in listening hours

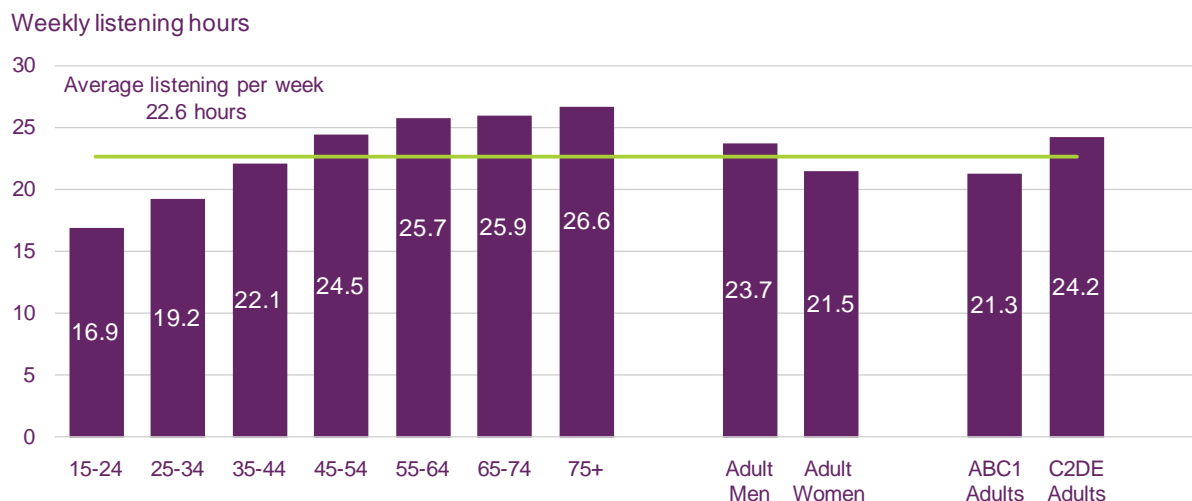


Source: RAJAR, All adults (15+), calendar years 2007 and 2011, total listening hours

## Average time spent listening to the radio increases with age

The demographic profile of average weekly listening hours for radio listeners in the UK (Figure 3.35) shows that the average time spent listening to radio increases with age, with radio listeners aged 75+ listening to an average of 26.6 hours of radio each week. It is higher among men than women, with men listening to 2.2 more hours per week than women. Those in the ABC1 socio-economic group listen to 2.9 fewer hours than those in the C2DE category. The average listening per week has increased by 0.2 hours. Looking at radio listening for the UK population as a whole, listening increased year on year by 0.1 hours to 20.4 hours in an average week.

**Figure 3.35 Average weekly listening, by demographic: year ending Q1 2012**



Source: RAJAR, all adults (15+), year ending Q1 2012, average weekly listening hours per listener

### 3.3.4 Most popular radio stations

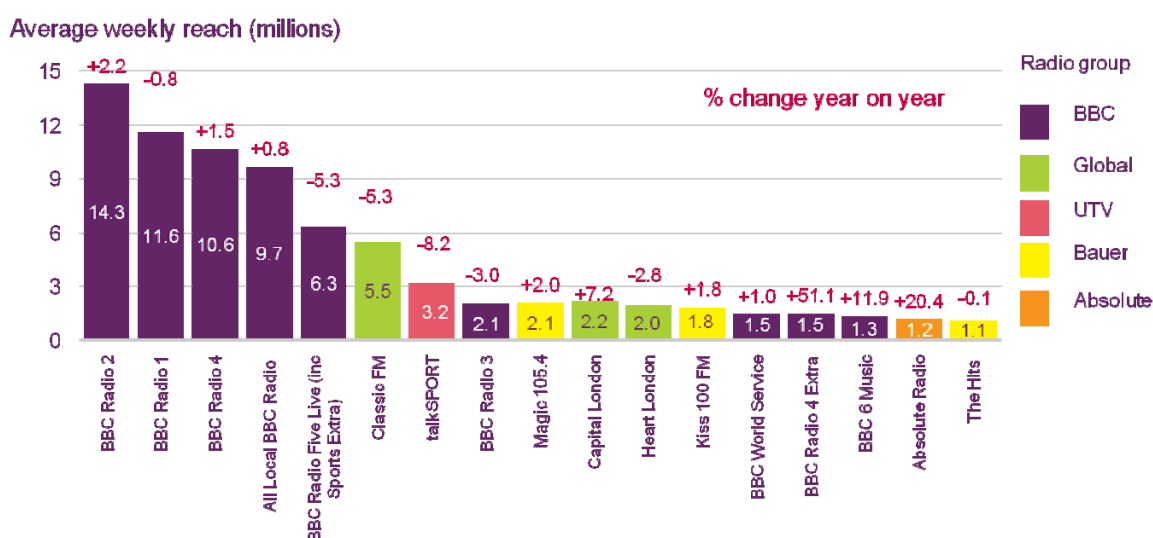
#### Many stations' weekly reach rose in 2011, with BBC network stations remaining the most popular

BBC Radio 2, BBC Radio 1, BBC Radio 4 and BBC Radio 5 are still the UK's most listened-to radio stations; according to RAJAR average weekly reach figures.

National commercial stations Classic FM and talkSPORT experienced losses during the year to Q1 2012 (5.3% and 8.2% respectively). They had higher listening than BBC Radio 3, but were less popular than other BBC analogue network stations. Absolute Radio, broadcasting nationally on analogue as well as on digital platforms, was the 16<sup>th</sup> most popular station, experiencing a 20.4% increase in listeners.

BBC Radio 4 Extra, formerly BBC 7, attracted the most listeners of any digital-only station, increasing its listeners by 51.1% to reach 1.5 million UK adults in an average week. BBC 6 Music, previously the most popular digital-only station, also experienced an increase in listeners, rising 11.9% to 1.3 million adults in an average week. Average weekly reach for The Hits, the UK's most popular digital-only commercial station, fell by 0.1%, making it the 17<sup>th</sup> most popular station.

**Figure 3.36 Most popular radio stations: year ending Q1 2012**



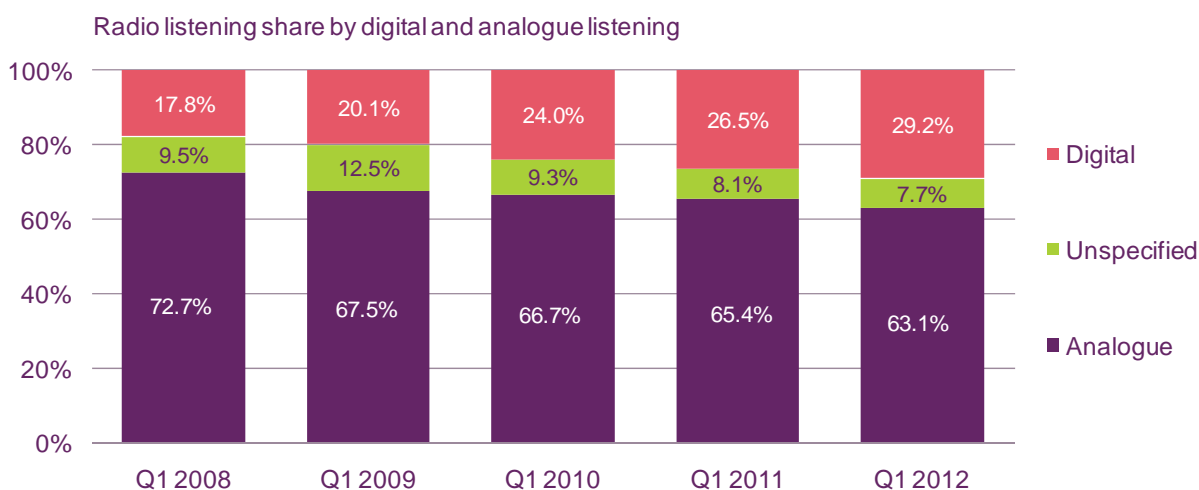
Source: RAJAR, all adults (15+), year ending Q1 2012

### 3.3.5 Digital radio listening trends

#### Digital listening increases by 11.4 percentage points over four years

Looking at Q1 figures for the previous five years, digital radio listening has risen at around 4pp each year and accounted for 29.2% of all listening in Q1 2012. Comparing Q1 2008 and Q1 2012, the proportion of listening through a digital platform has increased by 11.4pp. This figure includes listening through online and digital TV platforms, as well as DAB radio sets.

**Figure 3.37 Share of listening hours across analogue and digital platforms**

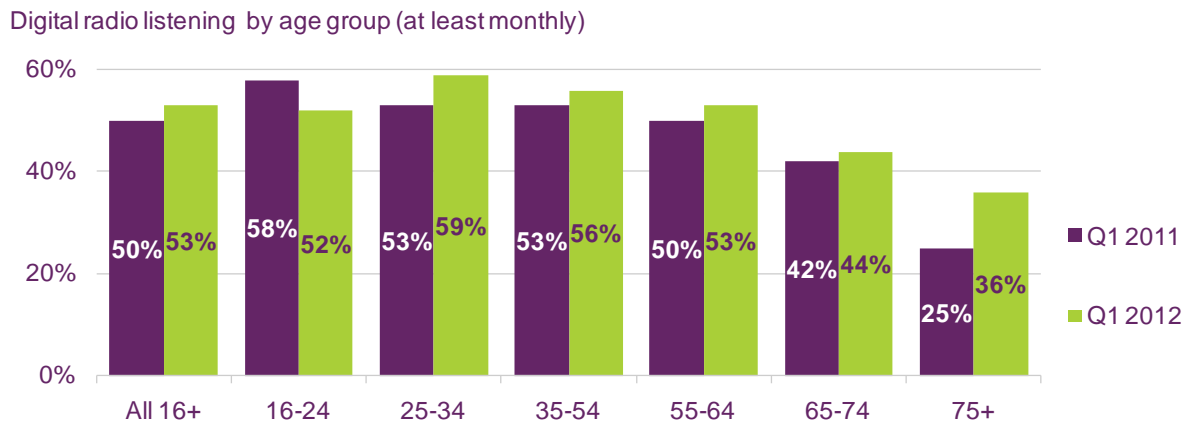


Source: RAJAR, All adults (15+), data relate to Q1 results as shown

#### 25-34s more likely than other ages to listen to digital radio

Older listeners are less likely to listen to radio through a digital platform, as Figure 3.38 shows. For listeners under 65, at least half claim to listen to digital radio on a monthly basis. Although this figure falls to 36% among the 75+ age group, this is a 13pp increase on the 25% of those aged 75+ who claimed to listen to digital radio in 2010.

**Figure 3.38 Digital radio listening, by age group: monthly**



Source: Ofcom research, Base: All who listen to the radio, Q1 2012 (n=2963), Q1 2011 (n=2811)  
 Q: Use digital radio at least monthly (includes digital listening via DTV, DAB set and online)

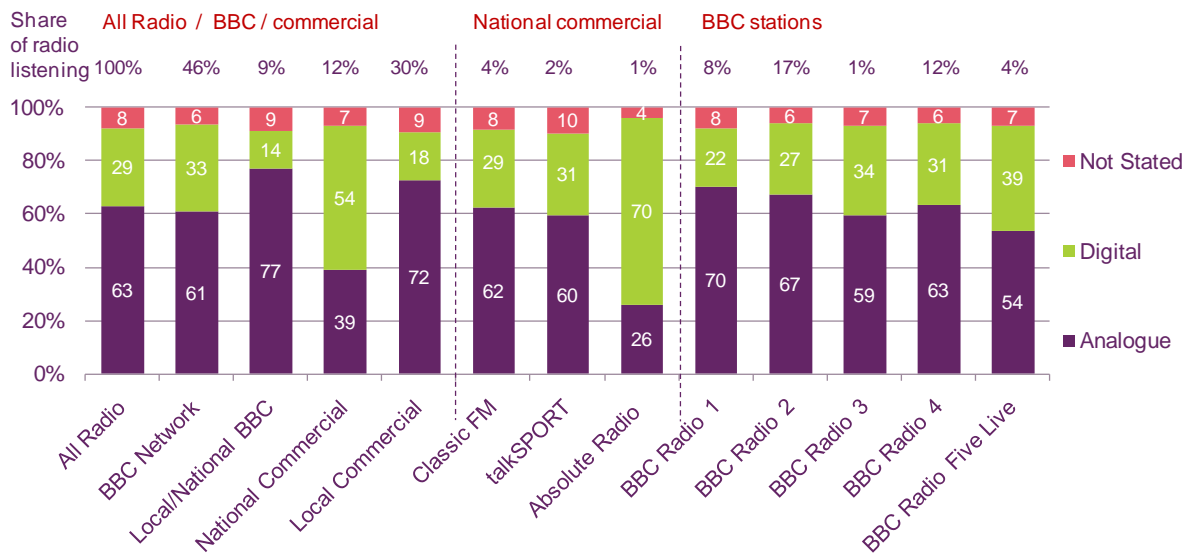
### 3.3.6 Digital radio share, by sector

#### UK-wide stations have the highest proportion of digital listening

UK-wide BBC network stations and national commercial stations have the highest level of digital listening compared to other station types. National commercial listening is aided by the many digital-only commercial services available. BBC local and national stations have the lowest level of digital listening (14%), with digital listening accounting for 18% of listening to local commercial stations.

Of the three national commercial stations available on analogue, Absolute Radio has the highest share of listening through a digital platform, with over two-thirds of its listening (70%) taking place on a digital receiver. This is a 15pp increase on the proportion of digital listening for Absolute for the year ending Q1 2011. Furthermore, this is significantly higher than the 29% and 31% share of listening through digital platforms for Classic FM and talkSPORT. This may be due to Absolute Radio's focus on recorded music content and limited FM availability, as music listening on AM is generally considered to be poorer quality.

**Figure 3.39 Audience profiles and platform split, by sector and station: year ending Q1 2012**



Source: RAJAR, year ending Q1 2012, adults 15+

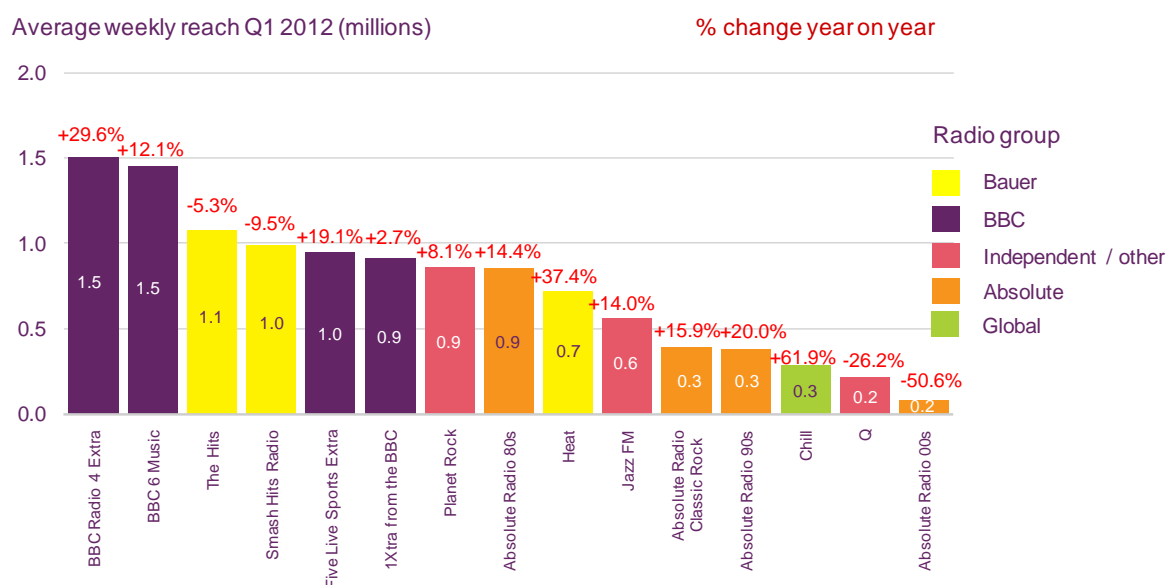
### BBC Radio 4 Extra is the most popular digital-only station

Formerly BBC Radio 7, BBC 4 Extra's average weekly reach increased 29.6% to 1.5 million adult listeners in Q1 2012, making it the UK's most popular digital-only station. The rebranding of the station has also involved a change in content; although most of the content broadcast on BBC Radio 4 Extra is drawn from the BBC sound archive, it also provides content based on current BBC Radio 4 shows.

BBC 6 Music, last year's most listened-to digital-only station, also increased its average weekly reach, rising 12.1% to 1.45 million adult listeners. Although 4 Extra has more listeners than BBC 6 Music, it is not the most listened-to digital-only service. 6 Music listeners tune in for longer, giving it a weekly average of 11.7 million listening hours while 4 Extra's stand at 8.4 million.

Commercial stations The Hits, Smash Hits Radio, Q and Absolute Radio 00s all saw losses in their average weekly reach. Absolute Radio 00s experienced the largest decline, losing 50.6% of its average weekly reach. It is possible that Absolute has retained this listening within its brand, however, as its other popular digital-only stations, Absolute 80s, Absolute Radio Classic Rock and Absolute 90s have all experienced significant increases in reach.

**Figure 3.40 Most popular digital-only stations: Q1 2012**



Source: RAJAR, Q1 2012, adults 15+

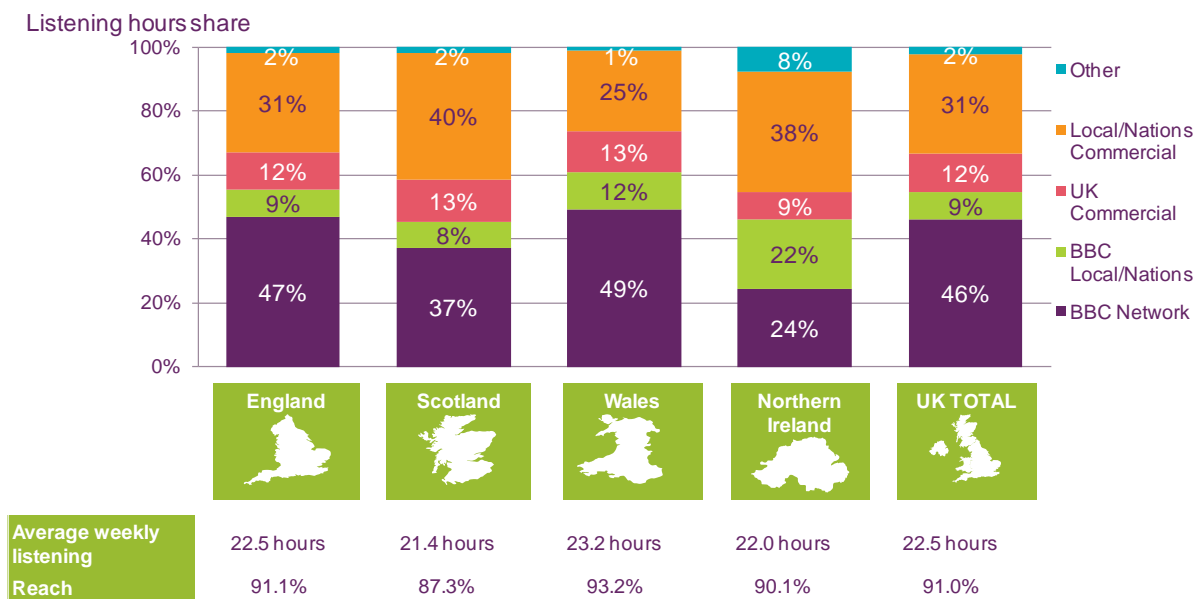
### 3.3.7 Listening patterns across the UK nations

The shares of listening hours for the different sectors of radio have remained broadly similar in the UK for 2011. There are, however, significant variations in listening-hour share between the UK nations, as outlined below:

- In **Scotland**, local commercial stations accounted for 40% of total radio listening hours – a higher share than any of the other UK nations. The listening share of national commercial stations stood at 13%, again higher than the UK average, meaning that Scotland has a high share of commercial radio listening compared to all other parts of the UK. But adults in Scotland listen to less radio overall than any other nation, with the lowest average weekly listening of 21.4 hours and the lowest reach of 87.3%
- In **Wales**, average weekly listening stood at 23.2 hours, the highest across all UK nations. Radio services reached 93.2% of the adult population, again the highest across all of the UK nations. Adults in Wales listen to the highest proportion of BBC stations, accounting for 61% of total listening hours in 2011.
- In **Northern Ireland**, regional BBC stations Radio Ulster and Radio Foyle have the highest proportion of listening hours for BBC local/national stations across the UK, with a share of 22%. Northern Ireland also has the highest share of listening to other stations, which includes small community and commercial stations, at 8%. This is likely to include cross-border listening to the Republic of Ireland's national broadcaster RTE.
- In **England**, listening shares have stayed the same year on year, despite an increase in overall listening and reach. BBC network stations attract the largest collective share, at 56% of total hours.



**Figure 3.41 Share of listening hours, by nation**



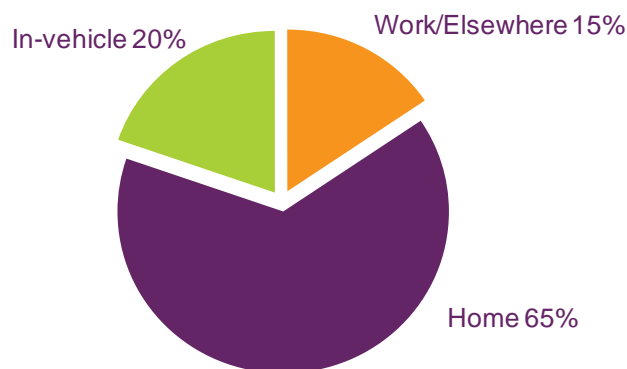
Source: RAJAR, All adults (15+), calendar year 2011

### 3.3.8 Location of radio listening

#### 65% of radio listening takes place in the home

The locations where radio listening takes place have remained relatively unchanged over the past five years. In-vehicle listening accounted for a fifth of all radio consumption in Q1 2012, according to RAJAR. A further 15% of listening takes place at work or away from the home.

**Figure 3.42 Location of listening, year to Q1 2012**

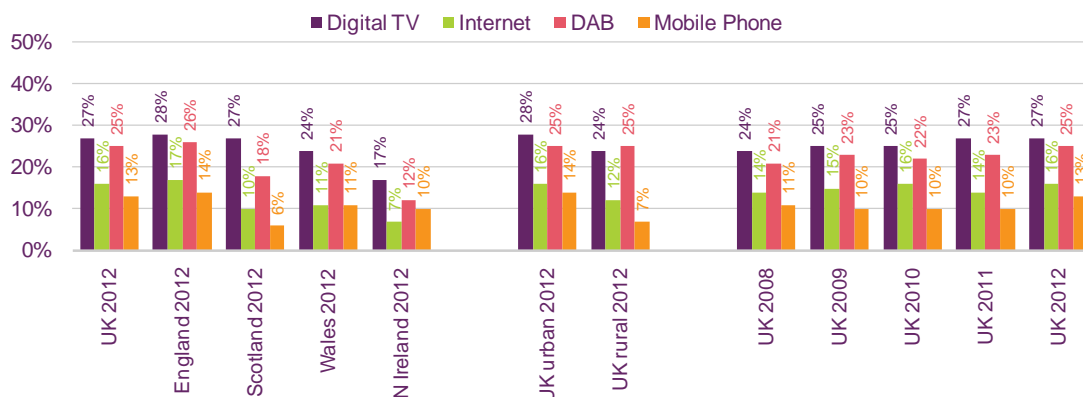


Source: RAJAR, year ending Q1 2012, all adults 15+

Adults in the UK are slightly more likely (at 27%) to listen to radio through their digital television than through a DAB radio (25%). Fewer UK adults listen to radio via the internet (16%) or a mobile phone, although listening via a mobile phone has increased by 3pp to 13% in 2012.

**Figure 3.43 Listening to radio via internet, digital television, mobile phone and DAB radio set**

Proportion of respondents (%) who have listened to radio via digital television, internet, DAB set or mobile phone



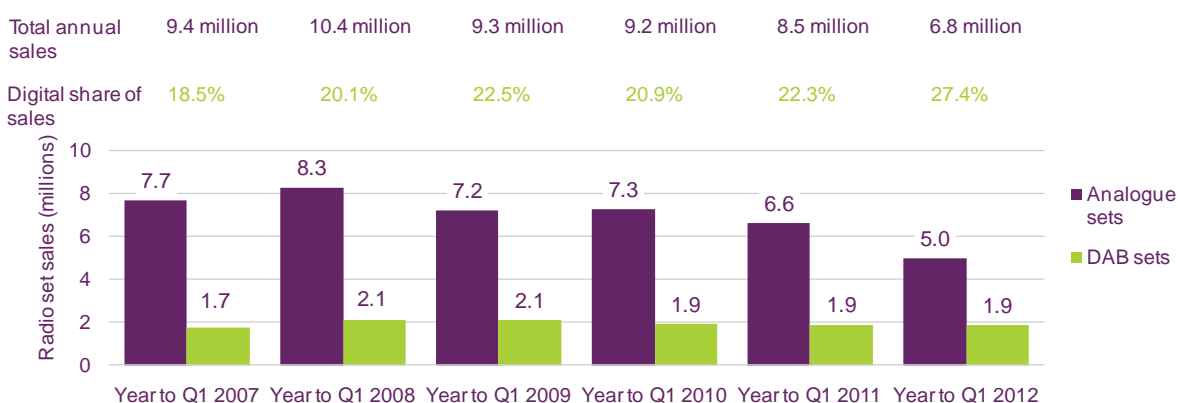
Source: Ofcom research, Q1 2012, Q1 2011, Q1 2010, Q1 2009, Q1 2008  
 Base: All adults aged 16+ (n = 3772 UK, 2251 England, 500 Scotland, 513 Wales, 508 Northern Ireland, 2731 UK urban, 1041 UK rural, 5812 UK 2008, 6090 UK 2009, 9013 UK 2010, 3474 UK 2011, 3772 UK 2012) QP3. How often, if at all, do you access the radio via – Digital radio via: TV, Internet, DAB radio, mobile phone?

### 3.3.9 Retail sales of radio sets

#### DAB sets account for 27.4% of all radio sales

Sales of DAB sets remained stable at 1.9 million in the year to Q1 2012. Although sales of analogue sets still account for the majority of radio sets sold (72.6%), the proportion of DAB sets sold increased by 5.1pp to 27.4%. This was due to a year-on-year fall of 24% (1.6 million units) in the number of analogue sets sold in the year to Q1 2012. As a result, total radio set sales were down by 19.6% year on year. (Figure 3.44)

**Figure 3.44 Number of analogue and digital radio sets sold**

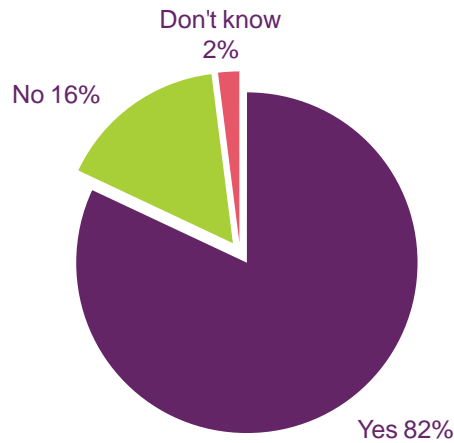


Source: GfK sales data, 2006-2012. Note: Figures cover GB only, GfK Panelmarket data represent over 90% of the market. Categories of device included are: portable radios, personal media players, car audio systems, home audio systems, clock radios, radio recorders, headphone stereos, tuners and receivers.

### 82% of consumers are aware of the term 'digital radio' or 'DAB'

Consumers in the UK have a high level of awareness of the terms 'DAB' and 'digital radio', with 82% recognising at least one of the terms. As Figure 3.45 shows, 16% of consumers had heard of neither term and 2% answered 'don't know'.

**Figure 3.45** Have you heard of the term 'DAB' digital radio?

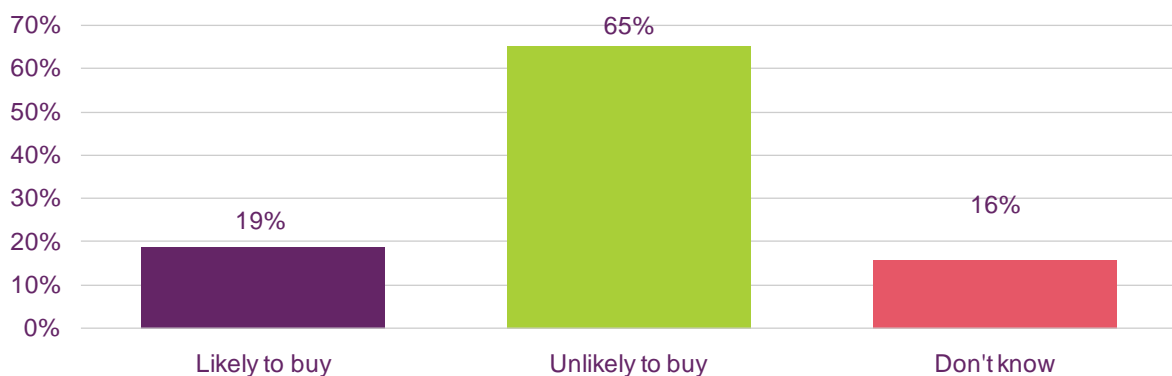


Source: Ofcom research 2012

In Q1 2012, Ofcom research found that 19% of listeners without a DAB radio stated that they intended to buy one within the next 12 months. Almost two-thirds (65%) of radio listeners without a DAB set said that they were not planning to purchase one in the coming year, a 14pp increase on 2011.

**Figure 3.46** Likelihood to buy a DAB radio in the next 12 months

Percentage of respondents who listen to the radio but have no DAB set in the home



Source: Ofcom research, Q1 2012

Base: Those who listen to the radio but have no DAB sets in the home (n=1855)

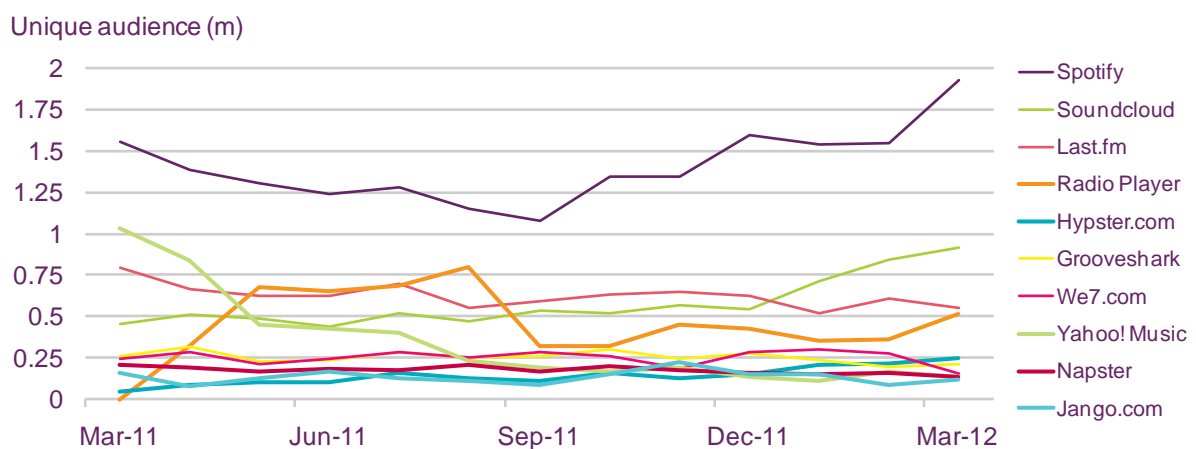
QP12: How likely is it that your household will get a DAB radio in the next 12 months?

### 3.3.10 Online music streaming services

#### Spotify remains the most popular online streaming service, while unique audiences grow for multiple sites

Spotify, a free advertising-supported and paid subscription-based music streaming service, continues to command the highest unique audience of online streaming services, with year-on-year growth of 24%. Soundcloud also attracted more users between March 2011 and March 2012, increasing its unique audience by 105% to 918,000. Radioplayer, an online listening platform for radio which hosts BBC radio stations, commercial stations and community radio broadcasters, was launched in March 2011. Visits to the site reached a peak of 806,000 in August and in March 2012 Radioplayer attracted a unique audience of 516,000.

Figure 3.47 Unique audiences of selected music streaming sites

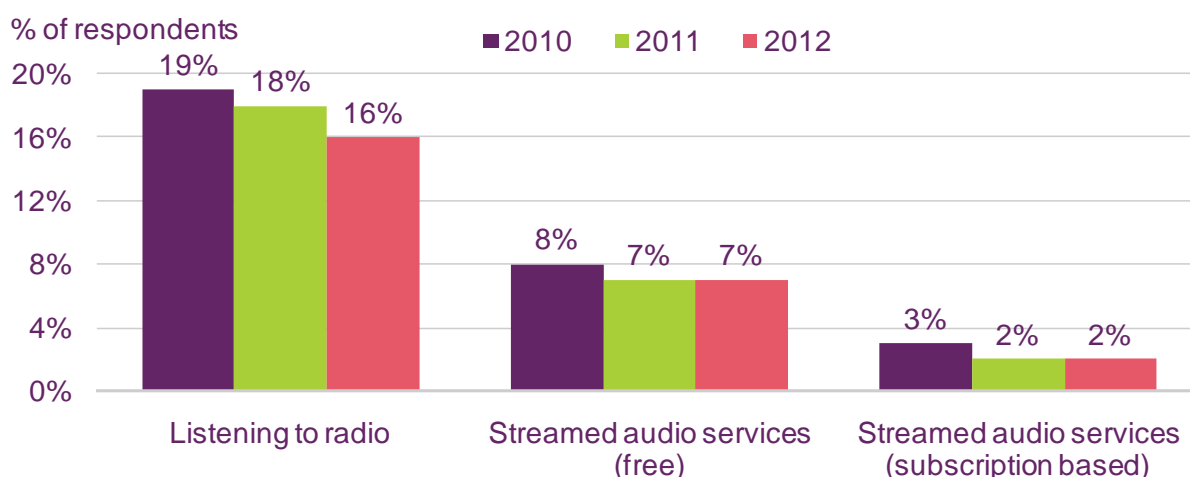


Source: UKOM/Nielsen, April 2012 home and work panel. Applications included. Radioplayer data start April 2011

#### Listening to the radio online is more popular than streaming services

According to Ofcom's own consumer research, 16% of households use the internet to listen to the radio. Seven per cent used free streaming services, such as Spotify and Last.fm, while 2% used subscription-based streaming services such as Spotify Premium.

**Figure 3.48 Audio internet use**



Source: Ofcom research, Q1 2012

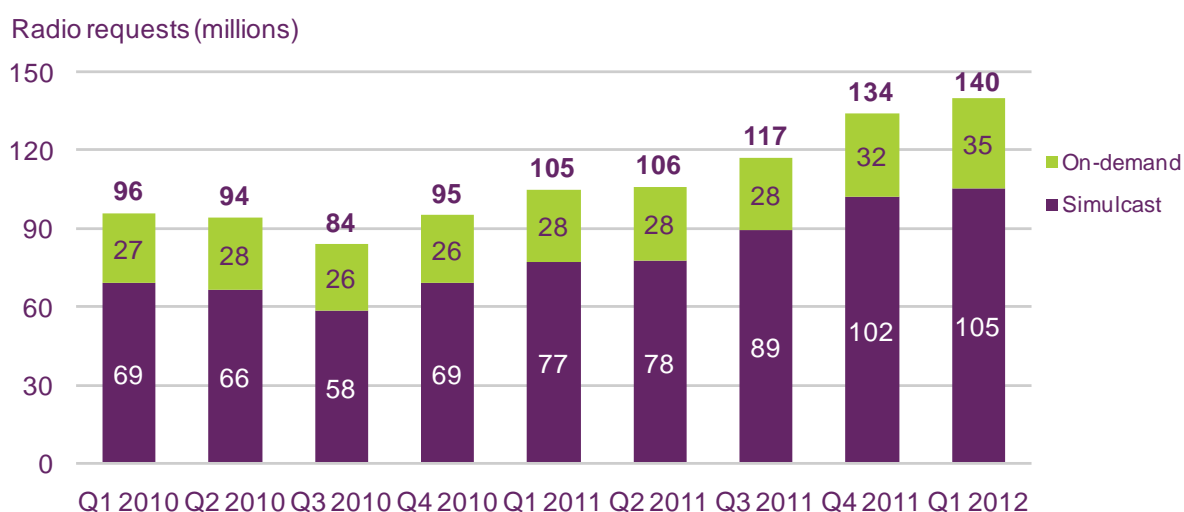
Base: Those with access to the internet at home (n= 2823)

QE5A. Which, if any, of these do you or members of your household use the internet for whilst at home?

**The number of requests to listen to radio programmes through BBC iPlayer has increased by 32% year on year**

Radio listening through the BBC’s iPlayer increased by 32% between Q1 2011 and Q1 2012, with live listening most popular. Figure 3.49 shows the number of requests consumers made through the platform to listen to radio content, split by simulcast and on-demand. In Q1 2012, 75% of requests were to listen to radio programmes through the iPlayer at the same time that they were broadcast.

**Figure 3.49 BBC iPlayer quarterly radio requests**



Source: Ofcom calculations based on BBC iStats

**3.3.11 Use of digital music services and devices**

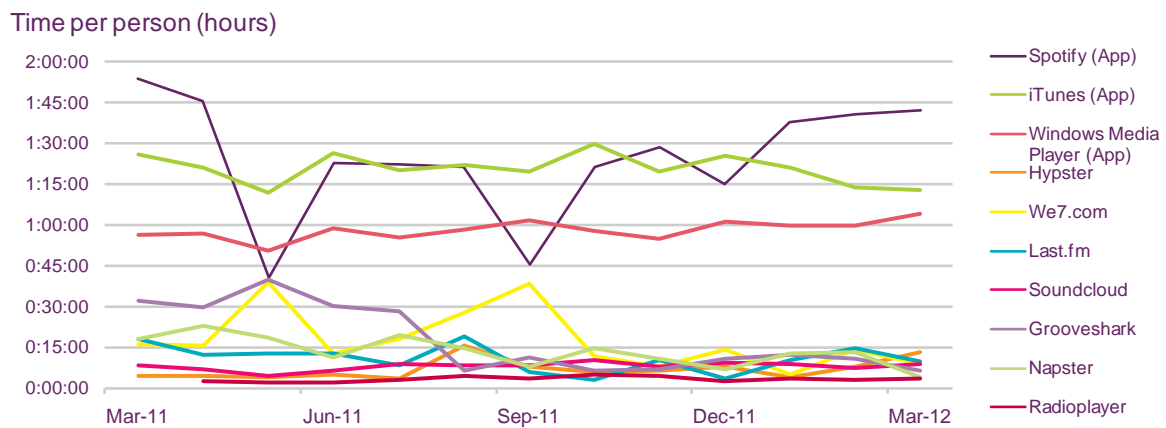
Spotify, iTunes and Windows Media Player are the most popular digital music services in the UK. However, the time spent using Spotify has proved to be more variable on a month-by-

month basis than the time spent using iTunes and the Windows Media Player, as Figure 3.50 shows.

It is important to note that the methodology used to collect the UKOM data counts time spent on an application only when it is 'in focus'. This refers to the application to which keyboard and mouse activity is directed; only one application can be in focus at any time. Furthermore, if the user remains inactive for 30 minutes or more, the time accrued to the application 'in focus' is discounted to one minute after the last-recorded activity.

As listening can occur while an application is 'out of focus' and because prolonged periods of inactive 'in-focus' activity are discounted, the time spent on the media applications and music streaming websites, shown in Figure 3.50, does not represent actual time spent listening to music; it is likely to underestimate it. However, these data do show the time spent browsing, searching and compiling music playlists. The figures show the number of people who opened and ran these applications on their computers, and do not necessarily represent a connection to the internet.

**Figure 3.50 Time spent using selected music services and media players**



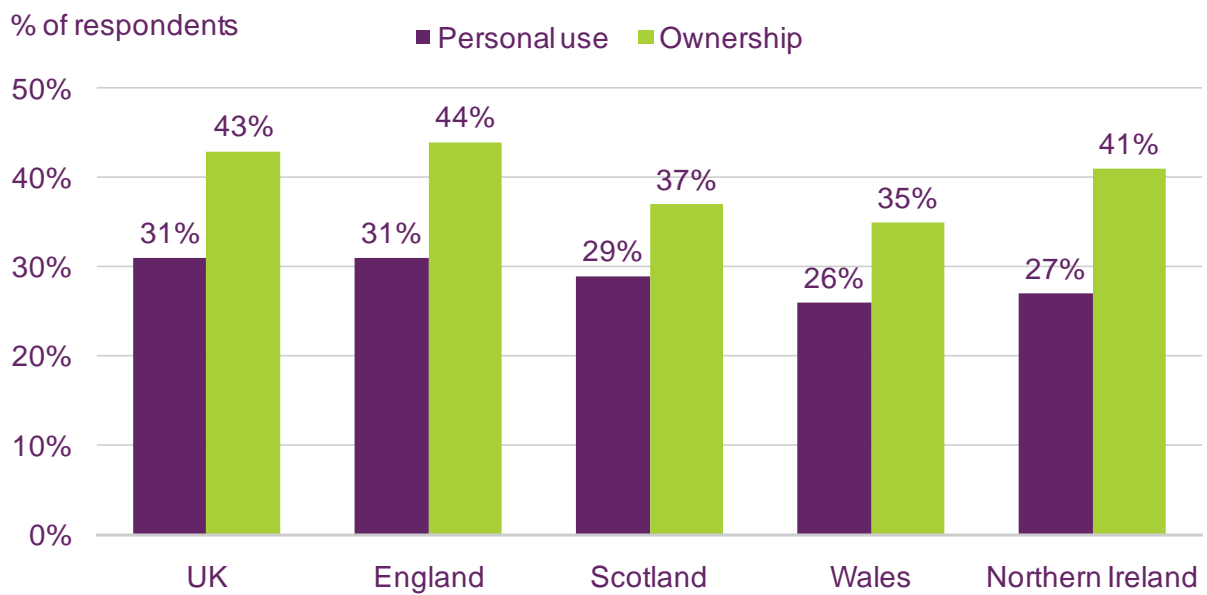
Source: UKOM/Nielsen, April 2012. Home and work panel. Applications included. No radio player data for March 2011

### More people own MP3 players and iPods in the UK than actually use them

Figure 3.51 shows a clear gap between the personal use and ownership of MP3 players. This is broadly similar to findings reported in the *Communications Market Report 2011* and may be due to the increase in use of smartphones as music players, leading to fewer consumers using their MP3 players and iPods for this purpose.

Around three in ten (31%) consumers in the UK personally use their MP3 player or iPod, although 43% claim to own one. Ownership and use were both lowest in Wales, and consumers in Northern Ireland showed the largest discrepancy between ownership and use (14%).

**Figure 3.51 MP3 player/iPod ownership and personal use**



Source: Ofcom research, Quarter 1 2012

Base: All adults aged 16+ (n = 3772 UK, 2251 England, 500 Scotland, 513 Wales, 508 Northern Ireland) QB1: Which of the following do you, or does anyone in your household, have in your home at the moment? QB2. Do you personally use: MP3 player/ iPod?

Please note data not comparable to 2010 figures



# The Communications Market 2012

## **4 Internet and web-based content**



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# 4.1 Key market developments in internet and web-based content

## 4.1.1 Introduction

Figure 4.1 UK internet and web-based content market: key statistics

UK internet and web-based content market	2007	2008	2009	2010	2011	2012
<sup>1</sup> PC/laptop take-up (%)	71	72	74	76	78	79
<sup>1</sup> Internet take-up (%)	64	67	73	75	77	80
<sup>1</sup> Total broadband take-up (%)	52	58	68	71	74	76
<sup>1</sup> Fixed broadband take-up (%)	n/a	n/a	68	71	67	72
<sup>1</sup> Mobile broadband take-up (%)	n/a	n/a	12	15	17	13
<sup>1</sup> Internet on mobile-phone take-up (%)	n/a	n/a	20	21	32	39
<sup>1</sup> Social networking online take-up (%)	n/a	20	30	40	46	52
<sup>2</sup> Internet advertising expenditure (£)	2.8bn	3.4bn	3.5bn	4.1bn	4.8bn	n/a
<sup>2</sup> Mobile advertising revenue (£)	n/a	29m	38m	83m	203m	n/a

Source: <sup>1</sup>Ofcom consumer research, Q1 each year, <sup>2</sup>Internet Advertising Bureau/PwC

The internet is at the heart of how many people communicate, find information and seek entertainment. And more and more devices are becoming internet-enabled. As a result it is becoming increasingly difficult to separate the use of internet services from conventional television, radio and voice communication services – they can all be provided by the same device.

The internet allows existing forms of content, such as TV-like programming and radio, to be consumed in new ways (for example: on demand, or interactively). Other chapters in this report consider content delivered via the internet in the context of television and other audio-visual content (chapter 2) and radio and audio content (chapter 3).

The internet has also allowed new internet-only content types, and new ways of communication, to emerge: social networking sites, user-generated content, and online shopping services. This section of the report considers how these are transforming the ways in which people communicate and seek information and entertainment.

It is split into three sub-sections.

In the first section, **key market developments**, we examine two themes which are central to the transformative effect of the internet on consumer behaviour and industry structures.

- **Two in every five adults now own a smartphone.** Smartphones have been a key enabler in the rise of the mobile internet; an internet-enabled device that has changed the way consumers live their everyday lives. We examine what activities consumers use their smartphone for, and the impact on other activities and devices.

- **More revenue is generated by internet advertising than by any other sector.** The internet now accounts for 30% of advertising revenue in the UK. Internet advertising is a key source of revenue for many of the online services consumers use. We examine how revenues have changed, and the diversification of internet advertising into new devices and new forms.

The second sub-section looks at the **internet and the devices** used to access it. We explore internet access in detail; from delivery platform, through the devices used, to the user. We examine how access has changed over time, how it differs between different groups in society, and why some groups do not use the internet at all.

Finally, we provide an overview of the **consumption of web-based content** in which we examine:

- how consumers navigate to content online;
- the most popular online services and websites; and
- consumer behaviours unique to the internet, such as social networking and online shopping.

#### 4.1.2 The changing behaviours of smartphone users

##### Introduction

This section examines the increasing the range of activities people use their smartphones for and how this is affecting the same activities on other devices and in other formats. It also examines new smartphone uses, such as checking prices while out shopping, checking-in to locations, and tweeting.

##### Methodology

Ofcom commissioned an omnibus survey among a representative sample of 2057 British (GB) adults to explore the relationship between people and their mobiles – with a particular focus on the activities people use their smartphones for. The survey was run by Kantar Media as part of the TNS CAPI (computer aided personal interviewing) omnibus. Fieldwork took place between 21 March and 25 March 2012. A similar study was run in 2011 so, where relevant, we have made year-on-year comparisons.

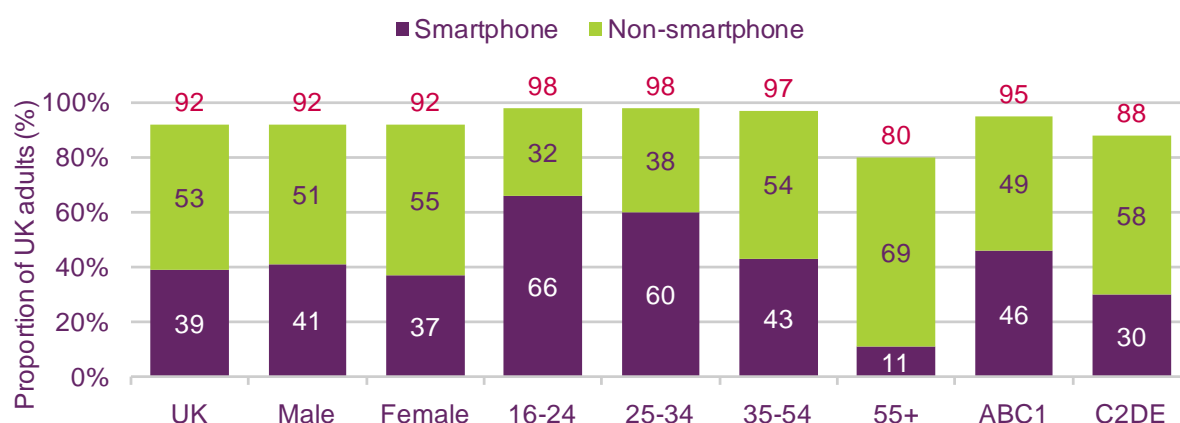
We define smartphones as being capable of a range of functions including playing audio and visual media, providing voice and data telecommunications, allowing access to emails, downloading files and applications, viewing websites and surfing the internet. The smartphone user has the ability to download multiple applications, giving each individual a unique handset offering unlimited functions developed through personal choice.

##### Two in every five UK adults now have a smartphone

Between 2011 and 2012 smartphone take-up rose from 27% to 39% of UK adults, representing 43% of mobile phone users<sup>84</sup>. Smartphone take-up is highest among younger age groups: 66% of those aged 16 to 24 and 60% of those aged 25 to 34 have a smartphone, as do 46% of the ABC1 socio-economic group.

<sup>84</sup> Note – the source of the take-up data is from the Ofcom Technology Tracker (Jan/Feb 2012), which provides a more robust base size for this data.

**Figure 4.2 Take-up of mobile phones and smartphones, UK adults**



Source: Ofcom Technology Tracker, Jan/Feb 2012

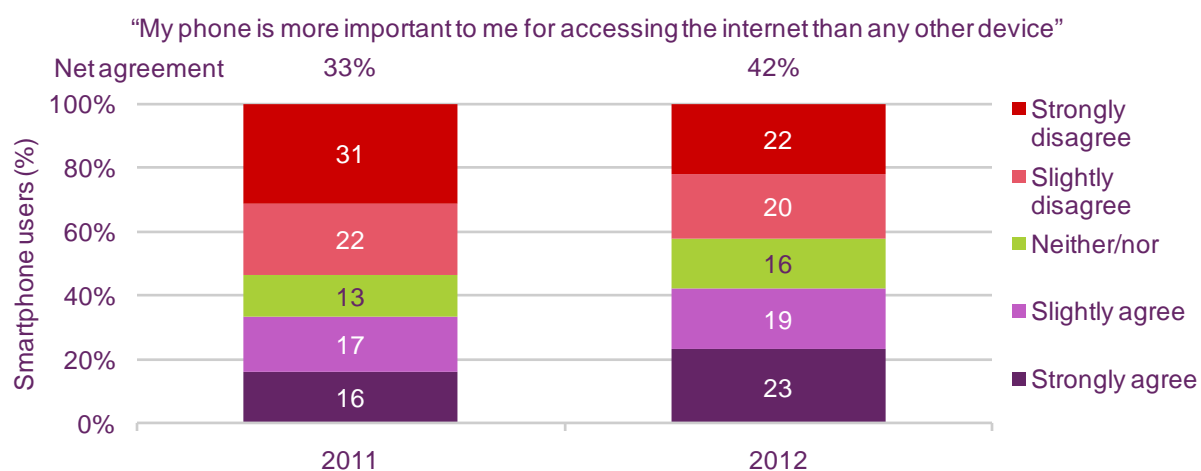
QD2. Do you personally use a mobile phone? /QD4 Do you personally use a smartphone?

Base: Total UK Adults aged 16+ (n = 3772 unweighted total)

### Smartphones are an important means of accessing the internet

More than four in ten smartphone users (42%) agree with the statement: “my phone is more important to me for accessing the internet than any other device” (Figure 4.3). Levels of agreement with this statement are highest among those aged 16 to 24 (51%) and 25 to 44 (48%). Levels of agreement have also increased over time, with 42% net agreement in 2012 compared to 33% net agreement in 2011.

**Figure 4.3 Importance of smartphones for internet access**



Source: Ofcom omnibus research, March 2012/2011

Q.13 Please tell me how much you agree or disagree with: My phone is more important to me for accessing the internet than any other device?

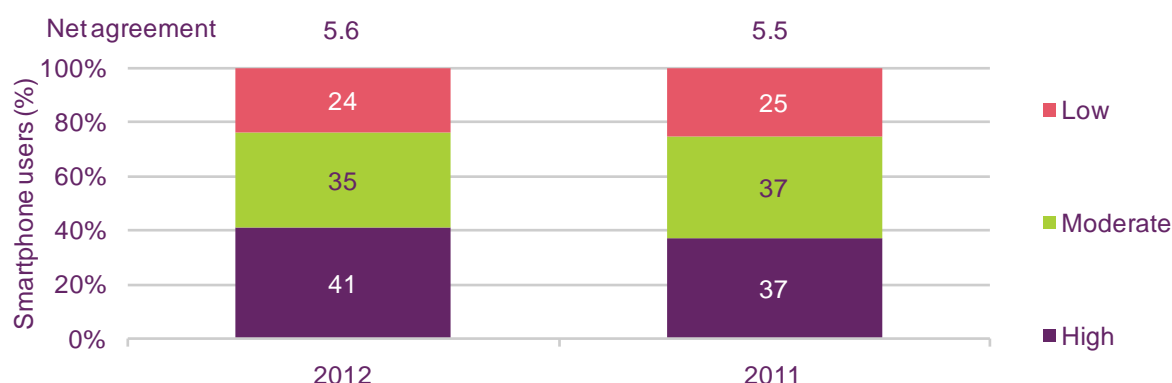
2012 Base: Total GB adults who use a smartphone (n = 654)/ Total 2011 GB adults who use a smartphone (n = 474).

### Smartphone users are highly dependent on their phone

Respondents were asked on a scale of 1 to 10 how addicted they are to their mobile phones, with 10 representing “completely addicted” to 1 “not at all addicted”. Just over four in ten (41%) smartphone users indicated high levels of addiction (7 or higher). This compares to 37% in 2011.

There are some age and gender differences among GB adults, with higher levels of phone ‘addiction’ measured among those aged 16 to 24 (41%), and among females (31%).

**Figure 4.4 Smartphone ‘addiction’**



Source: Ofcom omnibus research, March 2012/2011

Q14 Choose a number between 1 and 10, where 1 represents ‘I’m not at all addicted to my mobile phone’ and 10 represents ‘I’m completely addicted to my mobile phone’. Low is 1, 2, 3; moderate: 4, 5, 6, and high: 7, 8, 9, 10.

2012 Base: Total GB adults who use a smartphone (n = 654)/ Total 2011 GB adults who use a smartphone (n = 474).

### Smartphones are used for traditional internet activities and new internet phenomena

The top five activities or functions used regularly on a smartphone by GB adults are email (51%), internet surfing (44%), social networking (42%), taking photos/video (37%), and listening to music (35%)<sup>85</sup>. These are the same activities as recorded in the top five in the 2011 survey. Many of the activities listed have seen marginal increases since 2011 (2%-3%) with email measuring the biggest increase, up five percentage points from 46% in 2011.

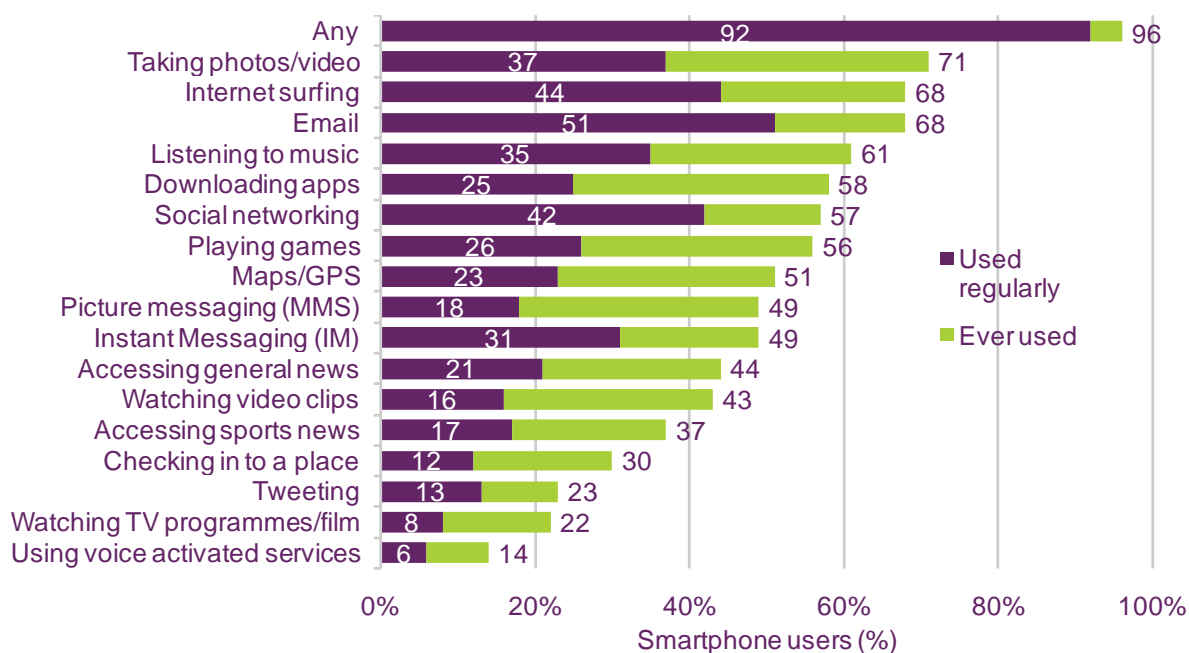
Activities or functions new to the 2012 survey are tweeting – sending a message on the social network Twitter, checking-in to a place or location on social networks such as Facebook or Foursquare, and using voice-activated services such as Apple’s Siri service on the iPhone. Thirty per cent of smartphone users claim to have checked into a location using their handset, while 12% claim to do this regularly. Nearly a quarter (23%) of smartphone users claim to have tweeted from their handset, while 13% users claim to do this regularly. The use of voice-activated services on smartphones has yet to achieve similar momentum, with the survey measuring just 6% of smartphones users regularly using this function.

Examining the profile of regular tweeters, they are more likely to be male (61% male versus 39% female), significantly more likely to be younger (41% are aged 16 to 24, and 31% aged 25 to 34), and more likely to be in a higher social-economic group (80% are classified ABC1).

Smartphone users who regularly check-in to places are significantly more likely to be female (59% female versus 41% male), younger (40% are aged 16 to 24, and 34% aged 25 to 34), and upmarket (69% are in the ABC1 social-economic group).

<sup>85</sup> Other activities conducted on a smartphone which are not specific to smartphone handsets have greater take-up among smartphone users. For example, 96% of UK smartphone users have ever sent or received an SMS message while 88% did so in the last week (Ofcom Tech Tracker, Q1 2012)

**Figure 4.5 Activities conducted on a smartphone by GB adults**



Source: Ofcom omnibus research, March 2012

Q.6 Which of the following functions or activities do you use regularly on your mobile?

Base: GB adults who use a smartphone (n = 654).

Source: Ofcom Tech Tracker Q1 2012

QD10 Which if any, of the following activities, other than making and receiving voice calls, do you use your mobile for?

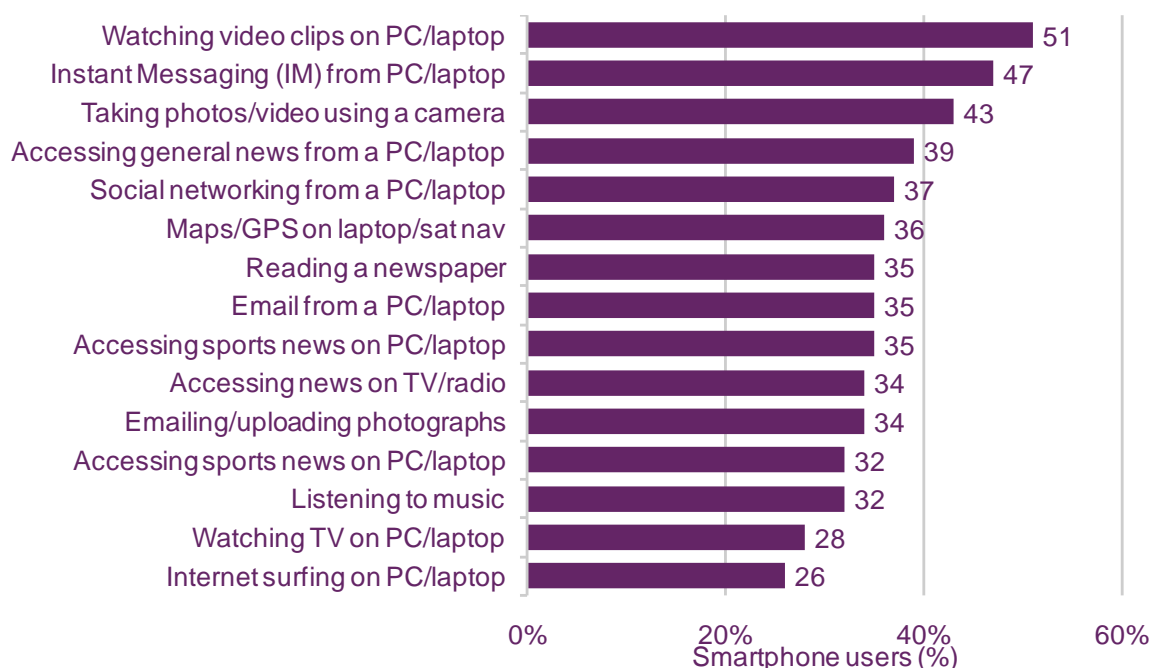
Base: UK adults who use a smartphone

### Smartphones are substituting for other devices and media formats

The activities that smartphone users claim their handset is substituting for most are: watching video clips on a PC or laptop (51%), instant messaging from a PC or laptop (47%), taking photos with a camera (43%), accessing general news from a PC or laptop (39%) and social networking from a PC or laptop (37%) (Figure 4.6). The strongest substitution appears to be for PCs and laptops, for some communications and short-form content consumption, while the substitution of smartphones for cameras is consistent with the trend towards higher-quality digital cameras being built into handsets.

But significant numbers of people say that they are still doing the same amount of activities on other devices since getting their smartphones. Around half of smartphone users still access news on TV/radio (50%), surf the internet on a PC/laptop (49%) and listen to music (42%) just as much as before getting their smartphone. Significant numbers of smartphone users also say they email from a PC/laptop (43%), access general news from a PC/laptop (45%), read a printed newspaper (44%), and access sports news on a PC/laptop (41%).

**Figure 4.6 Activities conducted less on other devices since getting a smartphone**



Source: Ofcom omnibus research, March 2012

Q.7 For each activity, please tell me whether you do more, less or the same amount on other devices since you have had your smartphone ?

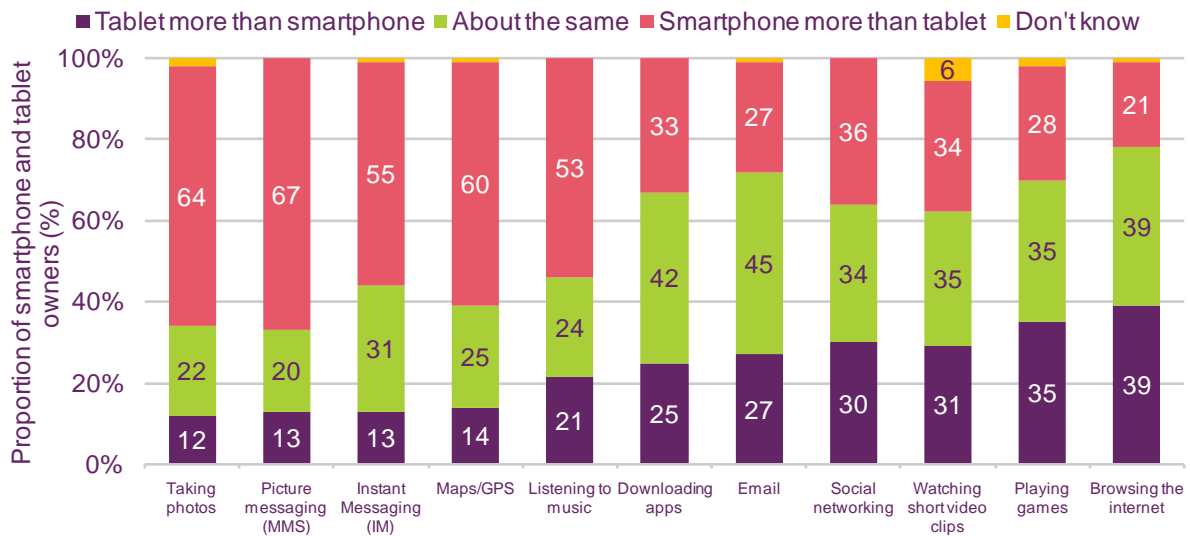
Base: Total GB adults who ever conduct the activity on their smartphone (variable bases)

### **One in five (20%) of smartphone users also own a tablet PC.**

Tablet computers and smartphones have many features in common, such as touch-screen interaction, internet connectivity, and the ability to install and run applications. Tablets have larger screens, and are less easily portable. Despite the overlap in functionality, one in five smartphone owners also have a tablet computer in the household.

A range of activities can be done both on smartphones and on tablets. Figure 4.7 shows the principal device on which each activity is conducted. Picture-messaging (67% of consumers who own a tablet and a smartphone) and taking photos (64%) are conducted more on smartphones than on tablet computers, while browsing the internet (39%) and playing games (35%) were the only activities for which consumers preferred to use their tablet. However, a significant proportion of consumers, for each activity, claimed to use their smartphone and tablet equally. It is likely that the device used is determined by the location of the consumer, since tablets are primarily used at home while smartphones are a mobile device (see section 1.6.4). Furthermore, consumers' preference for using their smartphone rather than their tablet for communication is likely to be driven by the fact that two-thirds of consumers share their tablets in their household; a tablet is less likely to be seen as a personal communications device (see section 1.6.7).

**Figure 4.7 Principal device for selected activities among smartphone and tablet owners**



Source: Ofcom omnibus research, March 2012

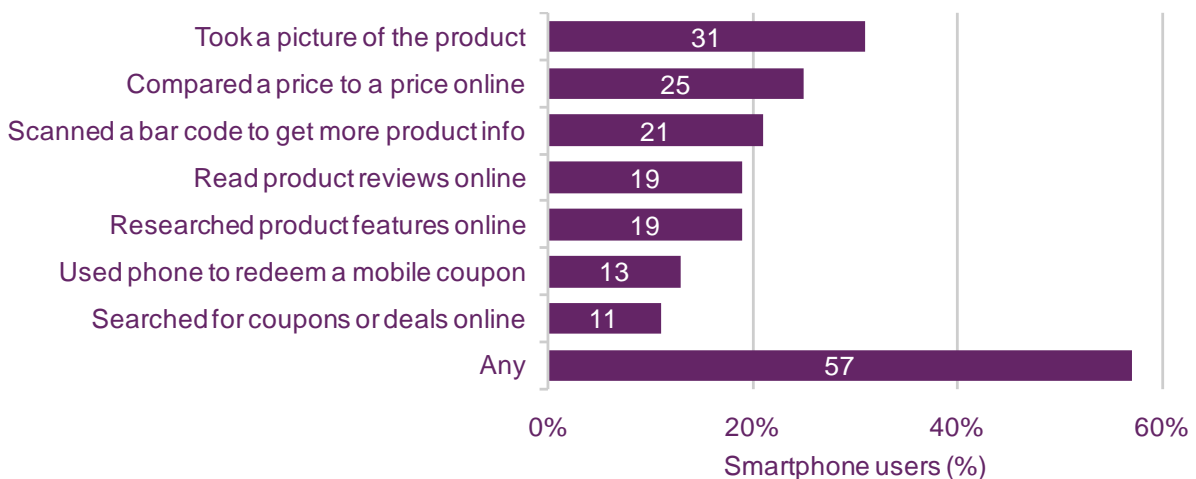
Q8 You mentioned earlier you have a tablet, which of the following activities do you use your tablet more or less for compared to your smartphone?

Base: All GB adults with a smartphone and tablet who have ever conducted the activity on their smartphone (all base over n = 75 shown)

### Consumers are using their smartphones to help them shop

More than half (57%) of smartphone users claim to have used their handset in some way when out shopping. This includes simple things such as taking a photo of a product (31% claim to have done this), to making online price comparisons (25%), acquiring more product information by scanning bar codes (21%), reading product reviews online (19%), and researching product features (19%).

**Figure 4.8 Activities conducted on a smartphone while out shopping**



Source: Ofcom omnibus research, March 2012

Q.8b Which, if any of the following activities have you ever done on your smartphone while out shopping?

Base: GB adults who use a smartphone (n = 654).

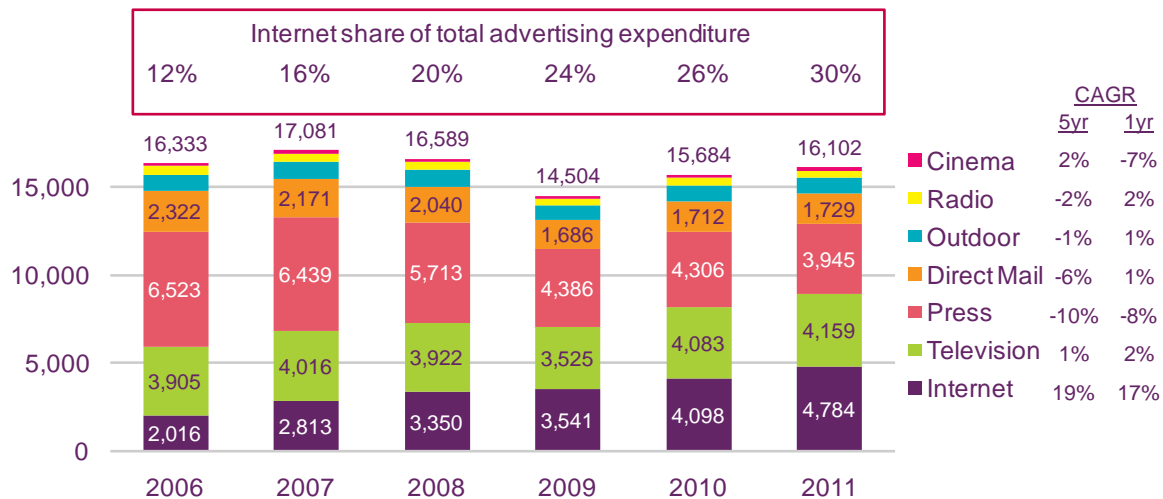


### 4.1.3 Internet advertising bolstered by mobile and online video revenues

#### Internet advertising has established itself as the largest ad category by spend

In 2011 advertising spend on the internet was £4.8bn, for the first time larger than any other category of advertising. Last year, internet advertising spend was still second to press advertising spend, but declining spend on advertising in newspapers and magazines (down 8% year on year) and the continued strong growth of internet spend (up 17%) has established internet advertising as the largest category of expenditure.

**Figure 4.9 UK advertising expenditure, by category 2006 – 2011**



Source: AA/Warc Expenditure Report

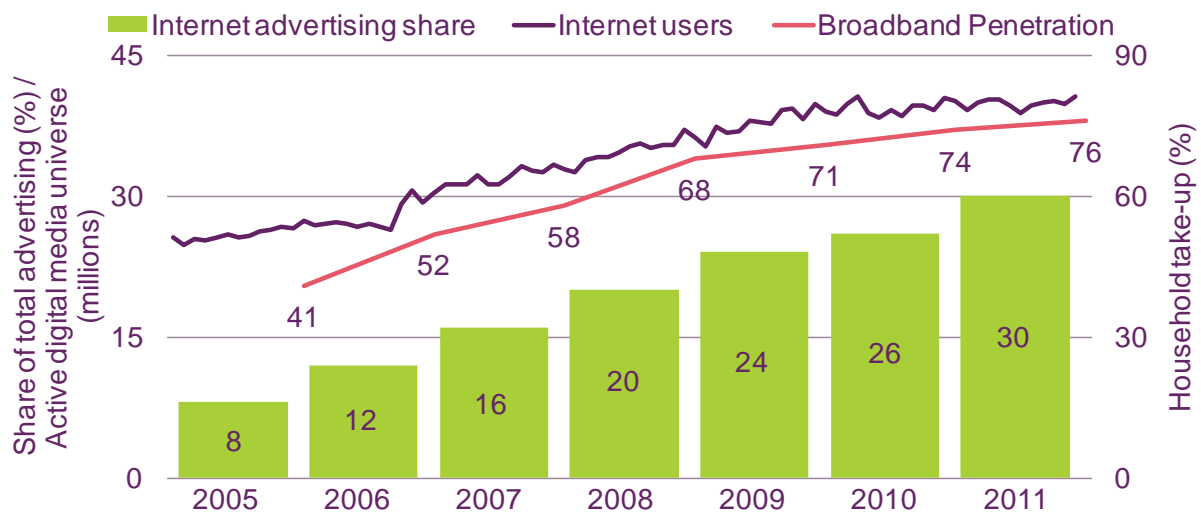
Notes: All figures are nominal; CAGR = compound annual growth

#### Advertisers have followed consumers onto the mobile internet

In the past five years, the share of advertising spend on the internet has doubled (Figure 4.10). At the start of 2007 approximately half of the population was online and half of households had broadband internet access (30.2 million active internet users<sup>86</sup>, and 52% household take-up of broadband) and internet advertising expenditure then stood at 16% of total advertising spend. As the audience online has grown and more households have adopted faster internet connections - allowing them to consume more content more quickly - so businesses have increased their spend on advertising to this audience. In December 2011, the number of people in the UK who had accessed the internet that month stood at 40.5 million, and in 2011 internet advertising spend accounted for 30% of all advertising.

<sup>86</sup> An active internet user is a member of the active digital media universe, which is the estimated number of people who accessed the internet at least once for a given month.

**Figure 4.10 Internet advertising share, internet users, and broadband penetration: 2005-2011**



Source: Internet Advertising Bureau, Nielsen Work and Home Panel, Ofcom  
 Note: Broadband household take-up figures are from Q1 of the following year.

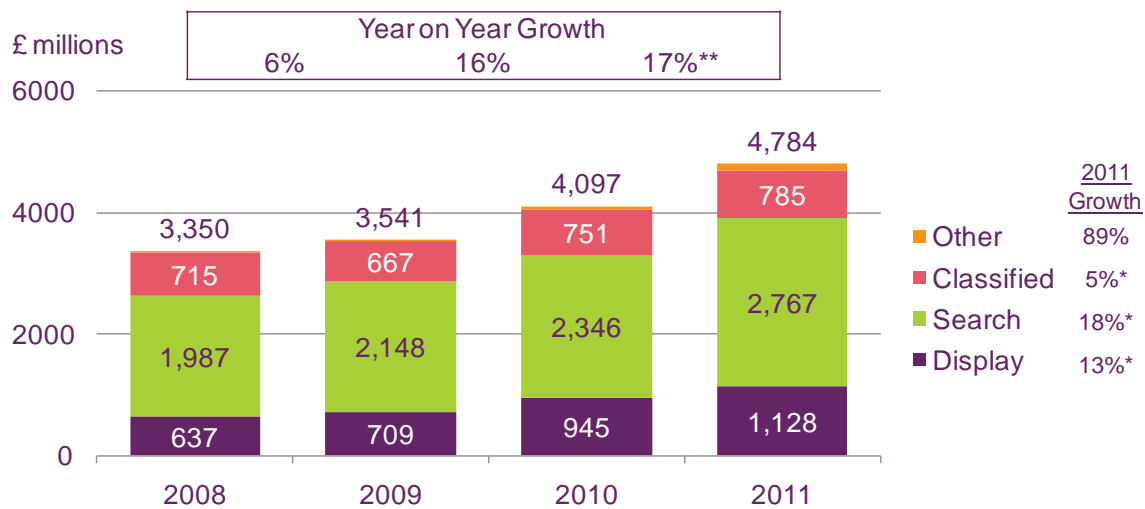
### Search and display are driving the growth of internet advertising

Search advertising (£2.8bn) was the largest source of internet ad spend in 2011, followed by display (£1.1bn), and classified (£0.8bn). Growth was fastest in search and display, up by 13% and 18% respectively on 2010 spend, while classified internet advertising has grown less quickly, up just 5% (Figure 4.11).

Search advertising revenues are generated by adverts placed against specific keywords that internet users search for on search engines such as Google, Yahoo! and Bing (see section 4.3.3 for more on search). Search advertising is unique to the internet and allows advertisers to target users who with specific interests. By contrast, internet display advertising is very similar to display advertising in the press and elsewhere, except adverts are placed as banners on web pages rather than newspaper pages. Internet classified adverts are also very similar to their print counterparts, being placed mainly by individuals buying or selling items on websites such as Gumtree or Autotrader.com. Further revenue is generated from emails, online audio, lead generation, and search affiliate advertising.

In 2008 classified and display internet advertising each earned similar revenues. Since then display has almost doubled, breaking the £1bn mark, while classified revenue shrank during the economic downturn in 2009 before returning to its present level, 10% above that in 2008. The strong growth of display and search can be accounted for in part by the emergence of two rapidly-growing internet advertising markets, discussed below.

**Figure 4.11 Internet advertising, by type: 2008 – 2011**



Source: Internet Advertising Bureau

Note: \*Like for like growth of the total market \*\*Like for like 2011 growth was 14%

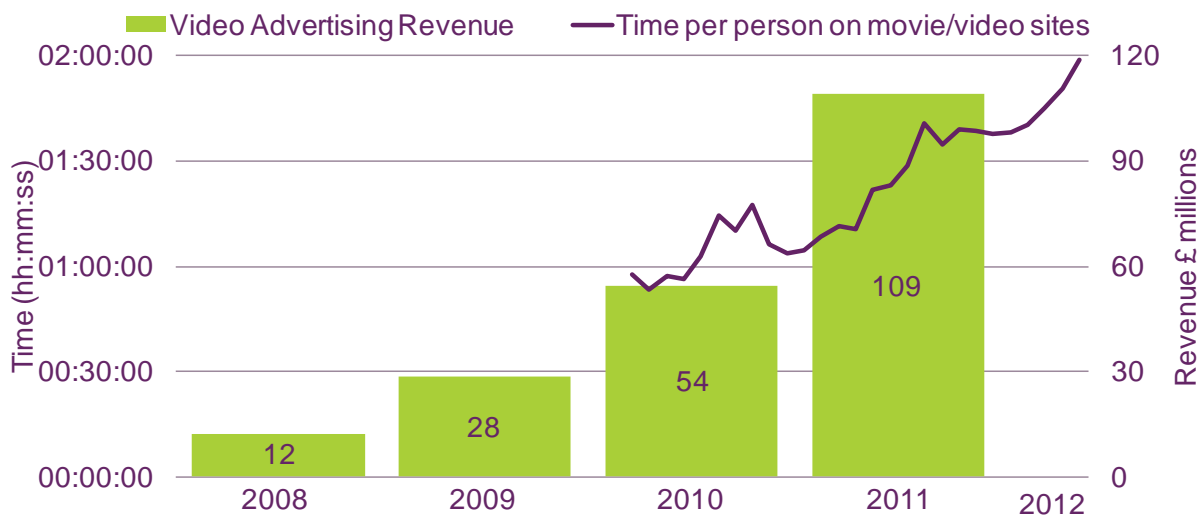
### Online video display advertising revenue has doubled every year since 2008

Video display advertising spend was £109m in 2011, approximately 10% of all internet display advertising revenue. Video display ads have seen exceptional growth since 2008, increasing their revenue eight-fold.

Online video advertising can take one of two forms. The first is similar to display advertising on websites, but in the form of an audio-visual advert rather than a static image or a series of animated images. The second is similar to traditional spot television advertising, where adverts are shown either before, after or mid-way through an online video.

A likely driving factor behind the rapidly-increasing revenues of video display advertising is the popularity of online video websites and the increasing amount of time internet users are spending on them (see section 4.3.5 on online video). In the past two years the time spent per internet user on film and video websites has increased in a similar proportion to online video advertising revenue. In March 2010 users spent an average of 58 minutes per person on these sites, increasing to 119 minutes per person by May 2012. Following the overall trend in internet advertising, advertisers are following audiences to where they consume most content.

**Figure 4.12 Video display advertising revenue and time spend on film/video sites: 2008 – 2011**



Source: Internet Advertising Bureau, Nielsen Work and Home Panel inc. applications.

Note: Time accounts for total time on sites of this category and not time spent viewing video content. 'Movie/video sites' is a collection of more than 400 sites including YouTube, BBC iPlayer, Dailymotion, LOVEFILM.com, Channel 4oD, ITV Player, Yahoo! Movies, blinkbox, Sky Go, Netflix and Vimeo.

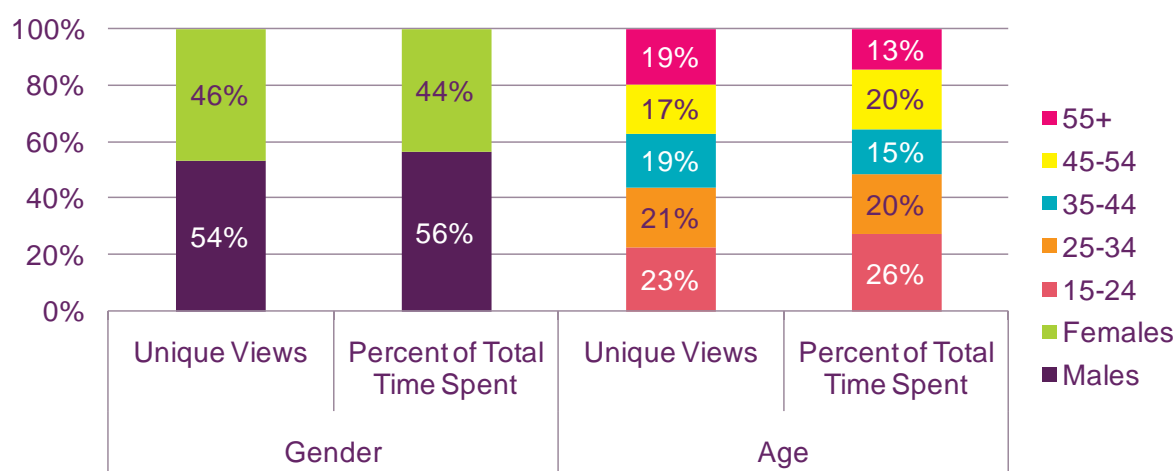
### Viewers of video ads are more likely to be younger and male

According to research published by comScore, just under 22 million internet users aged 6+ watched at least one online video advert in January 2012<sup>87</sup>. Men were more likely than women to view online video adverts (54% of unique views versus 46%) and almost one in four (23%) viewers of online video adverts were aged 15-24. Of all the time spent watching online video adverts, 56% of it was done by males, and more than a quarter (26%) of viewing time was by 15-24 year olds.

However, time spent viewing adverts is disproportionate to the age distribution of the unique audience for online video adverts: for example, while a fifth (19%) of the audience watching online video adverts was aged 55+, this age group accounted for only 13% of all *time spent* watching online video adverts.

<sup>87</sup>[http://www.comscore.com/Press\\_Events/Press\\_Releases/2012/3/64\\_Percent\\_of\\_UK\\_Online\\_Video\\_Audience\\_Exposed\\_to\\_Video\\_Ads\\_in\\_January](http://www.comscore.com/Press_Events/Press_Releases/2012/3/64_Percent_of_UK_Online_Video_Audience_Exposed_to_Video_Ads_in_January)

**Figure 4.13 Demographic profile of video advertisement viewers**



Source: comScore Video Metrix, internet users aged 6+

Note: Percent of Total Time Spent: % of Time Spent Watching Ad Videos by Demographic Segment / % of Total Internet Population from the Demo Segment x 100. Percent of Total Time Spent does not sum to 100% since not all ages groups are shown.

### As consumers have adopted the mobile internet, so have advertisers

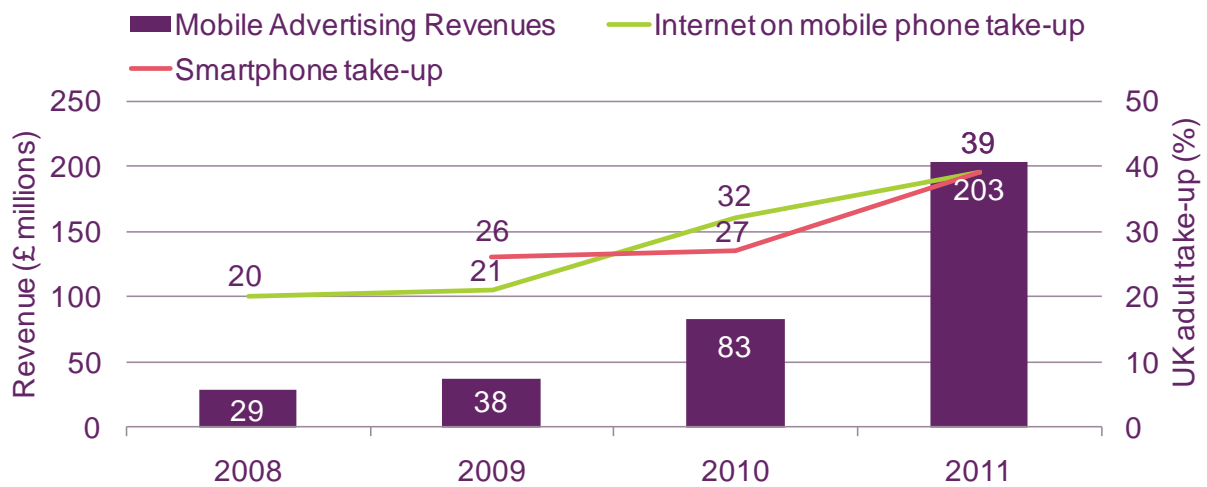
In 2011, expenditure on mobile advertising rose to £203m, more than double that of 2010, and representing like-for-like growth of 157%<sup>88</sup>. Since 2008, mobile advertising revenues have grown seven-fold and in the same time the proportion of adults using their mobile phone to access the internet has doubled (20% to 39%).

The *UK Communications Market Report 2011* highlighted the rise of the mobile internet and the likelihood that smartphone take-up was the primary driver of the increasing use of data services available on mobile phones<sup>89</sup>. It is also likely that smartphone take-up is the driver behind the growth of mobile advertising. Smartphones appear to facilitate the use of the mobile internet, increasing the mobile internet audience and making the platform a more attractive proposition for advertisers. Furthermore, the technological capabilities of today's smartphones, such as touchscreens, large high-definition displays, high-speed processors, and operating systems capable of installing apps, present a wider range of creative opportunities for advertisers.

<sup>88</sup> 'Like-for-like' growth between 2010 and 2011 only takes into account revenues of companies which submitted returns in both years to the IAB.

<sup>89</sup> See section 4.1.2, UK Communications Market Report 2011

**Figure 4.14 Mobile advertising revenues, and smartphone and mobile internet take-up**



Source: Mobile Advertising Revenues: IAB/PWC, Ofcom: take-up of internet on mobile phone and of smartphones

Note: Take-up figures are from Q1 of the following year.

**Search is two-thirds of mobile advertising spend**

In 2011 two-thirds (66%) of mobile advertising revenue was generated by mobile search advertising, unchanged since 2010, and the remainder by mobile display (34%) (Figure 4.15). The advances in mobile handset technology represented by smartphones, and the move away from WAP, have increased the similarity of the mobile internet to the conventional PC internet. As such, mobile search adverts and mobile display adverts are very much the same as their counterparts described above.

**Figure 4.15 Search and display share of mobile advertising revenues: 2008 – 2011**



Source: Internet Advertising Bureau/Pwc

**Apps serve the majority of mobile display ads**

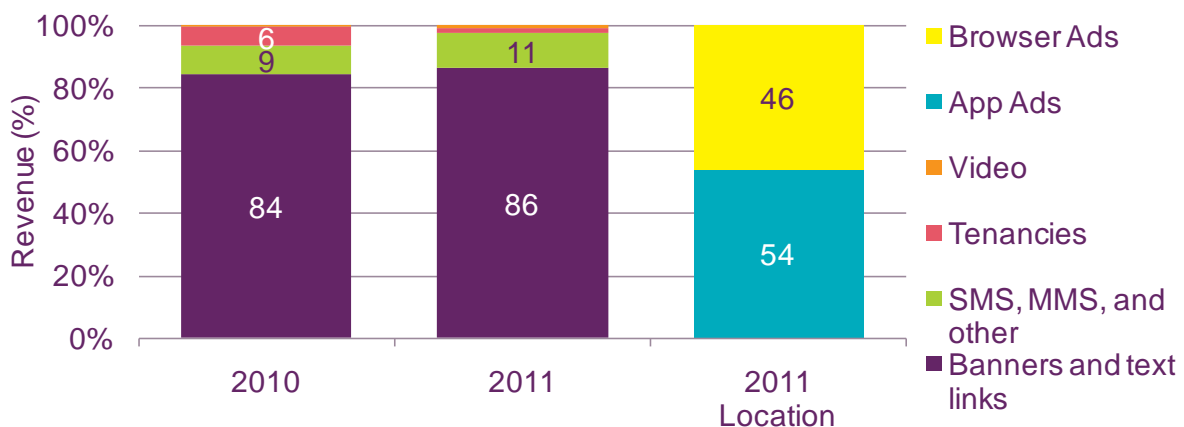
In 2011, 54% of mobile display advertising revenue was generated from an app (Figure 4.16). This is distinct from the wider internet advertising display market, where adverts are delivered inside the browser along with a website’s content. Space for display advertising is coded into a mobile application and the advert is delivered by a mobile advertising network. In recent years, players in the mobile advertising and smartphone markets have converged.

In January 2010, Apple, the manufacturer of the iPhone smartphone and iOS mobile device operating system, acquired mobile advertising company Quattro Wireless and re-launched the service as iAd the following July. In May the same year, Google, the company behind the Android operating system for smartphones, finished its acquisition of mobile advertising network AdMob, following approval from the US Federal Trade Commission<sup>90</sup>.

Mobile display advertising can be segmented further still. Figure 4.16 shows that the majority of display revenue was generated by display banners and text link advertising (86% of mobile display). The category of advertising containing SMS, MMS, and other advertising made up a tenth of mobile display advertising spend (11%), while the remaining spend was split between declining tenancies<sup>91</sup> revenue (£1.1m, down from £1.7m), and a small but increasing mobile video advertising revenue (£0.8m, up from £0.2m).

Adverts sent by SMS or MMS are compatible with a larger number of handsets and are charged by advertisers in a 'cost per click' fashion or by the number of impressions. SMS and MMS messages are also used in location-based advertising and pushed to consumers when they enter a particular cell on the network. The smallest segment of mobile display advertising, mobile video, is also similar to its PC counterpart. Despite the popularity of viewing short video clips on mobile phones (see Figure 4.5) the quantity of mobile video advertising is perhaps hampered by the diversity of smartphone operating systems and the hardware market, which increases the difficulty of delivering the same video experience across all handsets (e.g. the incompatibility of Flash video which is often used to deliver display advertising, on some handsets).

**Figure 4.16 Mobile display advertising revenues, by type and location: 2008 – 2011**



Source: Internet Advertising Bureau/Pwc

<sup>90</sup> <http://ftc.gov/opa/2010/05/ggladmob.shtm>

<sup>91</sup> Tenancy deals are typically long-term strategic partnerships between tenants (the advertiser) and media owners, which often include revenue share agreements.

## 4.2 Internet and devices

### 4.2.1 Introduction

As internet take-up has risen in the past decade, so has the number of devices which use it to communicate and deliver content. Internet-enabled devices greatly determine the consumer experience and the range of content, communications and services accessed on the internet. In this section we examine the popularity of these devices before considering internet access as a whole.

- Section 4.2.2 considers the **platforms consumers use to access the internet**, both fixed and mobile.
- Section 4.2.3 examines the take-up of **internet-enabled devices** and how this varies by age and social-economic group.
- Section 4.2.4 explores **internet take-up** and how this varies by age, gender and socio-economic group.
- Section 4.2.5 looks at the length of **time spent online** on laptop and desktop computers by UK internet users.
- Section 4.2.6 considers those consumers who are not online, and factors affecting **digital inclusion**.

### Key findings

The key findings from this section of the report are:

- **Eight in ten households have access to the internet.** Household internet access rose to 80% in Q1 2012, up three percentage points on the previous year. Internet access through a broadband connection stood at 76% of households, while 39% of households claimed to access the internet through their mobile phone.
- **Over half of all UK households have three or more internet-enabled devices.** Eighty five per cent of households own at least one internet-enabled device, and on average each household owns three different types of internet-enabled device. Only one household in a thousand owns all ten devices surveyed.
- **Games consoles are more popular than laptops or PCs among DE households.** Forty-six per cent of DE households own a games console, compared to just 44% who own a laptop computer and 30% who own a PC. In contrast, among AB households, 75% own a laptop and 56% own a PC, while 51% own games consoles.
- **Growth of accessing the internet on laptop and desktop computers is slowing.** Since January 2004 the number of desktop/laptop internet users in the UK rose by 6.2% on average each year to 39.7 million in January 2012. However, annual growth has slowed from 10.3% in January 2009 to just 1.6% in January 2012.
- **Young adult men spend the most time online on a laptop or desktop computer.** Men aged between 18 and 24 years old spent more time online via a laptop or desktop computer (34.1 hours) than any other age/gender group, and almost 10 hours more per month than the UK average of 24.2 hours for March 2012.



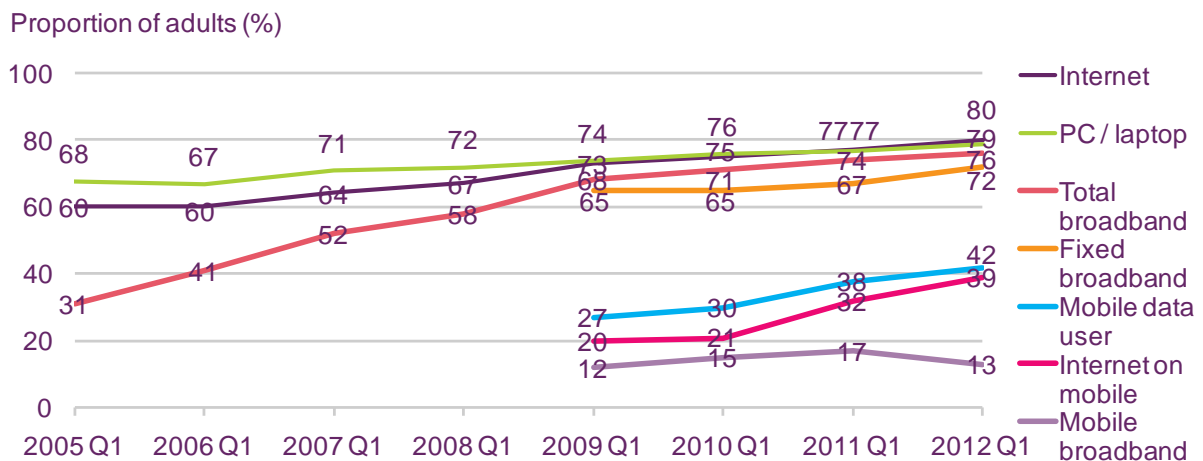
- **Two-thirds of 65-74 year-olds now have home internet access**, the largest rise among all age groups. The proportion of adults aged 65 to 74 with home internet access rose by nine percentage points to 64% between 2011 and 2012. Internet access was highest among those aged 16 to 34 (90%) and AB social groups (92%).
- **One in seven UK adults do not intend to get the internet in the next year.** One-third (33%) of people aged 65-74 and two-thirds (66%) of those aged 75 or over say they don't intend to get the internet. Three in ten (30%) of those in the DE socio-economic group say they don't intend to get the internet, compared to 6% of those in AB households. Overall, two-thirds (66%) cite lack of interest as the main reason for not getting the internet.

#### 4.2.2 Internet take-up, by platform

##### Eight in ten households have home internet access

Household internet access rose to 80% by Q1 2012, up three percentage points on the previous year, and for the first time exceeded the penetration of PCs and laptops (Figure 4.17). Internet access through a broadband connection stood at 76% of households, up two percentage points on Q1 2011 but with a different mix between fixed and mobile connections. Mobile broadband through a dongle or connection built into a laptop declined four percentage points to 13% of households in Q1 2012, while fixed broadband household take-up rose five percentage points to 72%. Three-quarters of the mobile broadband decline was among mobile-broadband-only households, while households with fixed and mobile broadband connections fell by one percentage point. The decline in mobile broadband internet access is likely to have been substituted by the rise in fixed take-up and the increased use of internet on a mobile phone (up seven percentage points to 39%).

**Figure 4.17 Household PC and internet take-up: 2005-2012**



Source: Ofcom technology tracker, Q1 2012

QE1: Does your household have a PC or laptop computer? / QE2: Do you or does anyone in your household have access to the Internet/Worldwide Web at HOME (via any device, e.g. PC, mobile phone etc)? / QE6: Which of these methods does your household use to connect to the Internet at home?

Base: All adults aged 16+ (n=3772)

Note 1: "Internet on mobile" is the % of adults who use a mobile phone for any of the following activities: instant messaging, downloading apps or programs, email, internet access, downloading video, video streaming, visiting social networking sites.

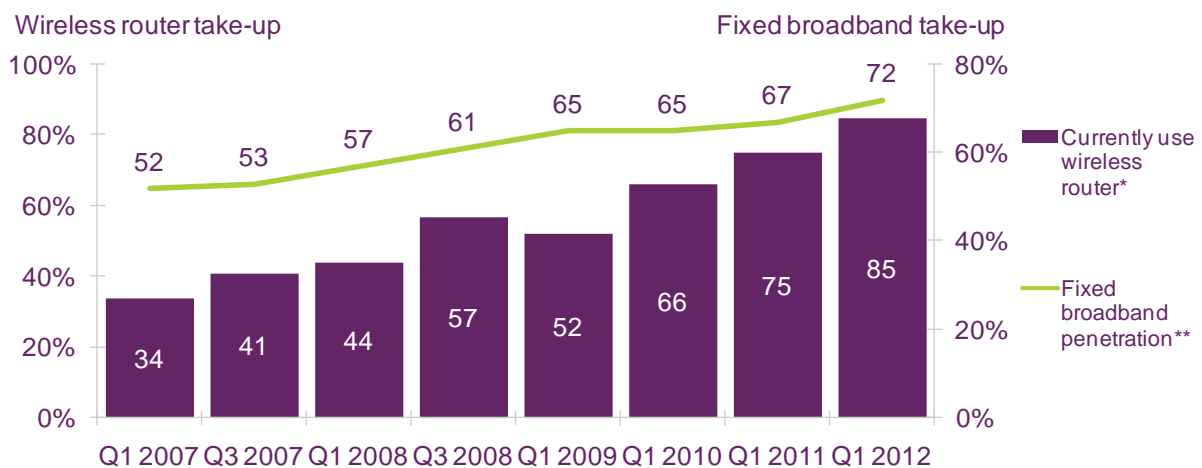
Note 2: From Q1 2009 the 'internet' figure includes those who access the internet on mobile phones.

## WiFi networks are a key enabler for homes with multiple internet-enabled devices

In Q1 2012 the proportion of homes with broadband using a wireless router rose ten percentage points to 85%. A wireless router, or WiFi router, enables a household to share its internet connection, over a wireless local area network, with devices that have a WiFi adapter or an embedded wireless module. WiFi adapters are typically external USB dongles or internal PCI cards used for desktop computers, or other internet-enabled devices such as games consoles and smart TVs. Embedded WiFi modules are typically found in portable internet-enabled devices such as laptops, netbooks, smartphones, portable games consoles, tablets and e-readers, but they are also becoming more prevalent in fixed devices such as television set-top boxes, smart TVs, and games consoles.

Internet service providers typically include a bundled WiFi router in their broadband service package; this is likely to have driven take-up of WiFi routers in homes. As highlighted above, a number of devices which were not widely available five years ago (e.g. netbooks, smartphones, and tablets) can be connected to the internet over WiFi. The next section will describe the take-up of these devices

**Figure 4.18 Use of wireless router versus broadband take-up: 2007 – 2012**



Source: Ofcom research, Quarter 1 2012

Base: Wireless router take-up - adults aged 16+ with a broadband connection at home (\* from 2009 this is based on fixed broadband connections only). Fixed broadband penetration based on all adults aged 16+ (\*\* prior to 2009 this is total broadband penetration).

### 4.2.3 Internet-enabled devices

#### The laptop is the internet-enabled device with the highest take-up

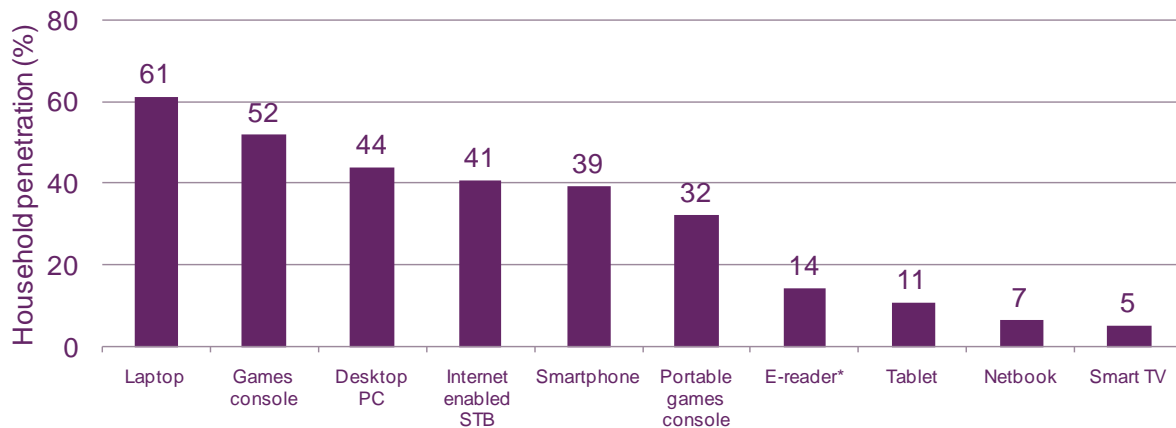
Each of the devices highlighted in Figure 4.19 can connect to the internet; however, the networks over which the device connects and the internet experience that the device delivers both vary. Furthermore, while each of the devices below is capable of being connected to the internet, the degree to which the internet is integral to the device experience differs by device and by consumer expectation. For example, the primary purpose of a games console or a set-top box, such as the Sky+ and V+ boxes, is to be able to play games, and watch television content, respectively. But both these devices can also be used to watch catch-up television, and neither internet experience is equivalent to the one delivered through a web-browser on a desktop PC or laptop.

We examine the use of internet-enabled devices in the following sections of this report:

- Tablets and e-readers – section 1.6 of the *Market in context* chapter.
- Smart TVs and internet-connected televisions (including games consoles and internet-enabled set-top boxes) – section 2.1.2 of the *Television and audio-visual* chapter.
- Smartphones – section 4.1.2 of this chapter.

The laptop is the most popular device that can connect to the internet among UK households (61% of households). Games consoles such as Sony’s Playstation 3, Microsoft’s Xbox 360, and Nintendo’s Wii are the second most popular type of internet-enabled device (52%), followed by the desktop PC, with ownership in 44% of households.

**Figure 4.19 Ownership of internet-enabled devices**



Source: Ofcom research, Quarter 1 2012

Base: Adults aged 16+ n = 2258

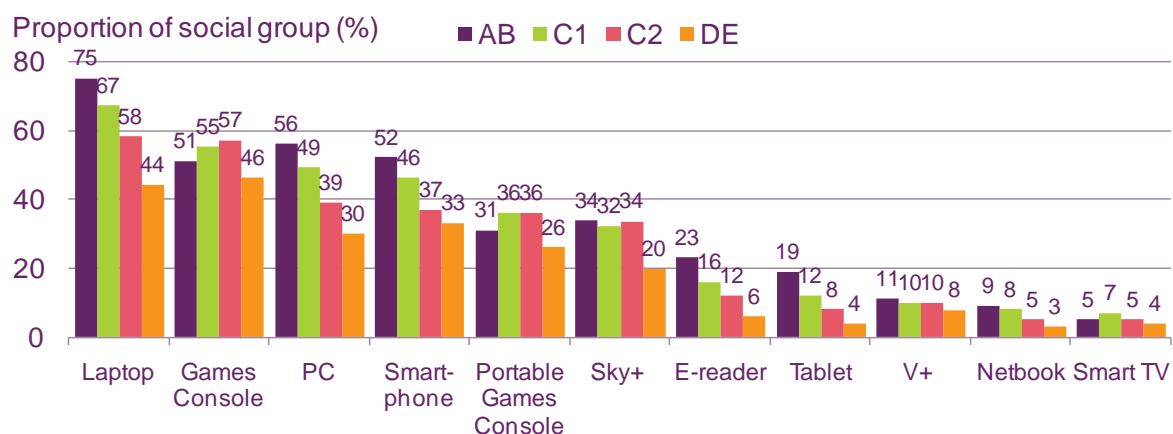
Note: Internet-enabled devices include laptop, games console, desktop PC, smartphone, portable games console, internet-enabled STB (Sky+, Sky+ HD, V+ and V+ HD set top boxes), e-reader, tablet, netbook, and smart TV. \*E-reader take-up stated here is household while elsewhere in the report we state e-reader take-up by individual.

### Games consoles are more popular than laptops or PCs among DE households

Figure 4.20 shows ownership of each type of internet-enabled device as a proportion of the AB, C1, C2, and DE socio-economic groups. For almost all internet-enabled devices, ownership is highest among AB households and lowest among DE households, probably related to the greater disposable income to spend on such devices in AB households. The exception to this rule is ownership of TV-based and portable games consoles, where take-up is higher among C1 and C2 households than in AB households.

Figure 4.20 also shows that the popularity of internet-enabled devices varies by socio-economic group. Counter to the UK average shown in Figure 4.19, games consoles are more popular than laptops or PCs among DE households (46% versus 44% and 30% respectively), while PCs and smartphones are more popular than games consoles among AB households (56% and 52% versus 51% respectively).

**Figure 4.20 The proportion of each social group owning internet-enabled devices**



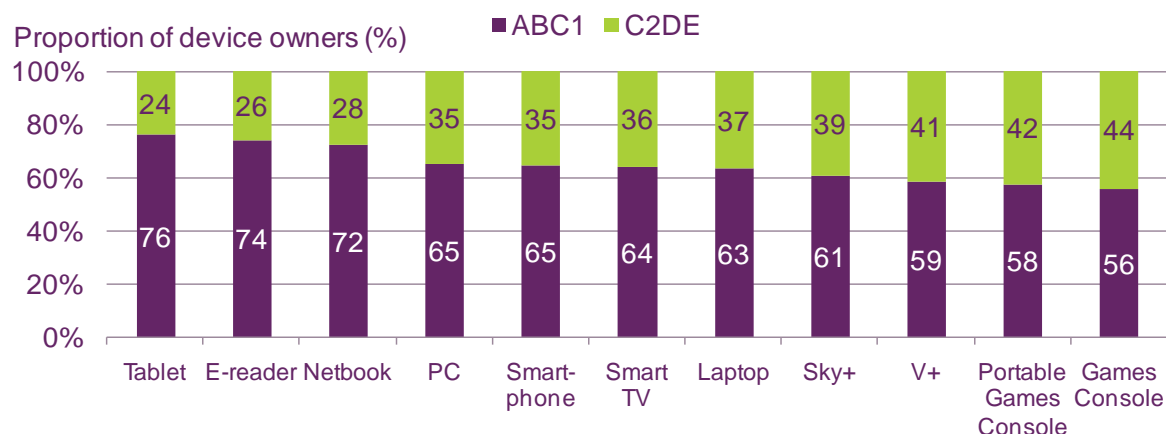
Source: Ofcom research, Quarter 1 2012

Base: Adults aged 16+, AB n = 822,, C1 n= 1085, C2 n=765, DE n=1098

### ABC1s are more likely to adopt the most recent internet-enabled devices

Three-quarters of e-readers (74%) and tablets (76%) are owned by ABC1 households compared to just six in ten internet-enabled set top boxes such as Sky+ (61%) or V+ (59%). Figure 4.21 shows that internet-enabled devices of all kinds are more likely to be owned by ABC1 households than C2DE households, but that the balance of ownership varies according to device. Recent market entrants such as e-readers, tablets, and netbooks, the functionality of which is replicated among existing devices, are more likely to be owned by ABC1 households than C2DE<sup>92</sup>.

**Figure 4.21 Internet-enabled devices, by social group**



Source: Ofcom research, Quarter 1 2012

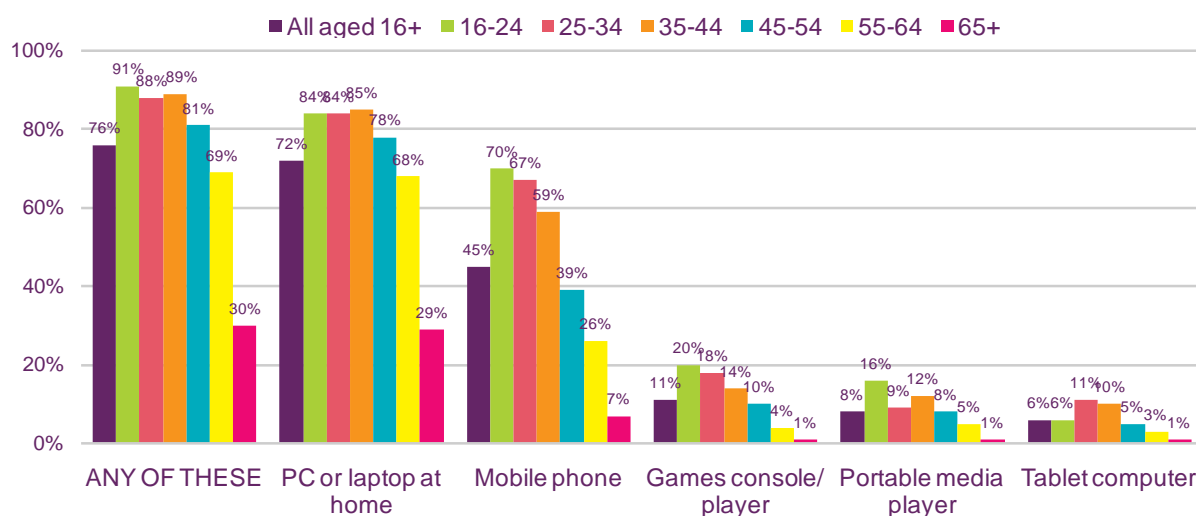
Base: Adults aged 16+

### Use of internet-enabled devices to access the internet varies by age and ownership

Those aged 16-24 were the most likely to have accessed the internet on a mobile phone, games console, or portable media player (Figure 4.22). However, those aged 25-34 and 35-44 were more likely than other age groups to have accessed the internet on a tablet computer. See section 1.6.3 for more information on tablet ownership by age group.

<sup>92</sup> The proportion of households by social group in the 2001 UK census was AB 22%, C1 29%, C2 15%, D 17% and E 16%.

**Figure 4.22 Devices used to visit internet websites in 2011, by age**



Source: Ofcom research, fieldwork carried out by Saville Rossiter-Base in September to October 2011

IN1/ IN2- Do you or does anyone in your household have access to the internet at home through a computer, laptop or notebook? And do you personally use the internet at home?/ Do you have and use any of the items shown on this card to access the internet or to visit internet websites? (Prompted responses, single coded)

Base: All adults aged 16+ (1823 aged 16+, 225 aged 16-24, 252 aged 25-34, 294 aged 35-44, 228 aged 45-54, 281 aged 55-64, 543 aged 65+). Significance testing shows any difference between any age group and all adults aged 16+

### Eighty-five per cent of households own at least one internet-enabled device

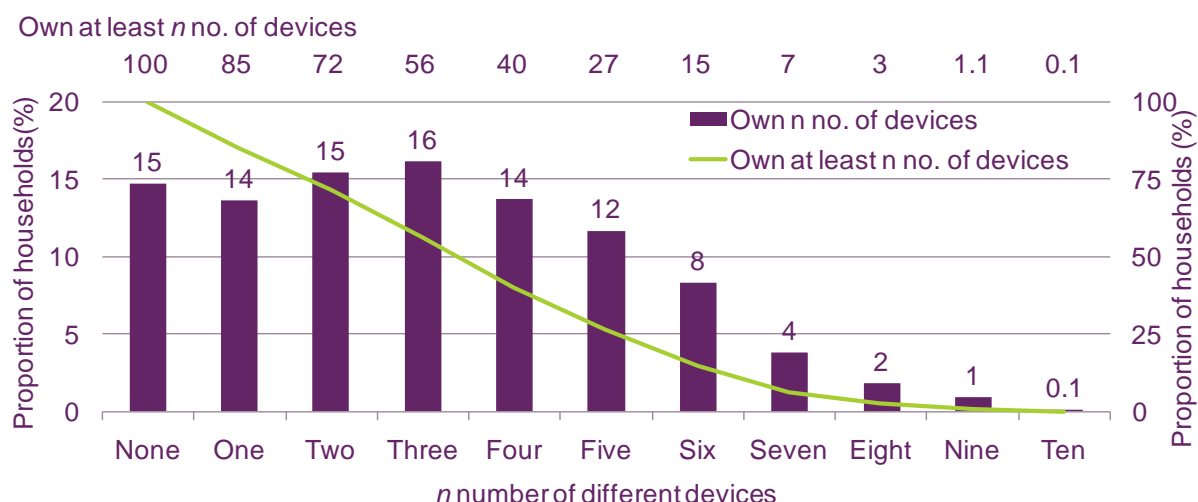
Each household in the UK has on average three<sup>93</sup> different types of internet-enabled device, and 85% of households have at least one (Figure 4.23). Only one household in a thousand owns all ten devices listed in Figure 4.19, although more than half of all households (56%) owned three or more different types of device.

According to research conducted by consultancy Deloitte, by December 2011 the average UK household owned 9.7 devices capable of accessing media via any transmission technology, up from 8.7 the previous year<sup>94</sup>.

<sup>93</sup> The sum of different device counts (6900) divided by the sum of respondents (2258).

<sup>94</sup> Deloitte, *State of the Media Democracy Survey*, n=2276, consumers aged 14-75, online-only survey. Q Which of the following media or home entertainment equipment does your household own?

**Figure 4.23 Number of different internet-enabled devices per household**



Source: Ofcom research, Quarter 1 2012

Base: Adults aged 16+ n = 2258

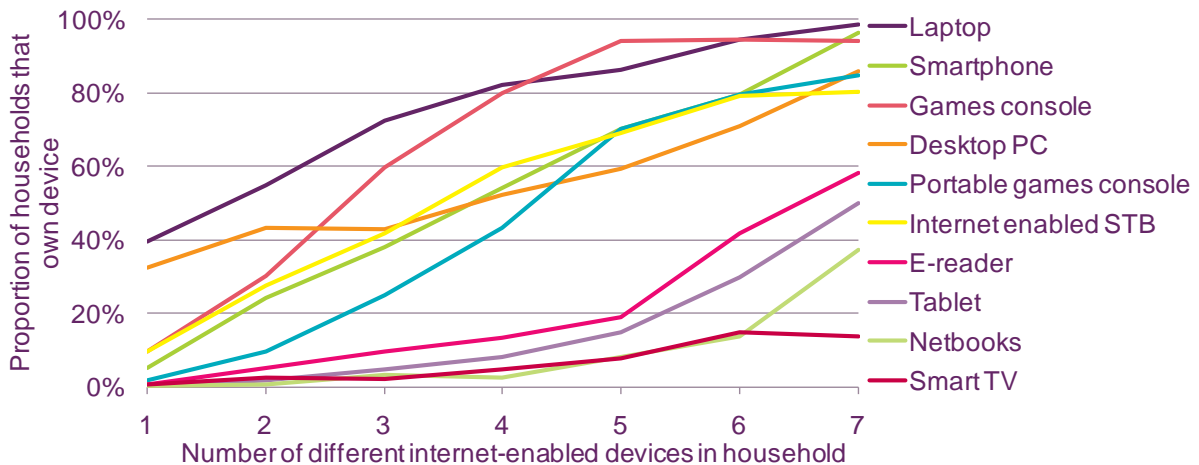
Note: IP-enabled devices include laptop, games console, desktop PC, smartphone, portable games console, internet enabled STB (Sky+, Sky+ HD, V+ and V+ HD set top boxes), e-reader, tablet, netbook, and smart TV.

**Consumers are least likely to have an e-reader, tablet, netbook or smart TV as their sole internet-enabled device**

Of the 85% of households that own at least one internet-enabled device, Figure 4.24 shows the penetration of each device as the number of devices per household increases. The chart provides an indication of the most likely order in which consumers adopt different internet-enabled devices. Laptops and games consoles achieve higher adoption levels among households with fewer devices, while e-readers, tablets, netbooks and smart TVs were very unlikely to be the sole internet-enabled device in a household. These devices are much more likely to be adopted by households with six or more different devices.

Within households with three different devices (the mean stated above) the devices with highest adoption are laptops and games consoles. A desktop PC, an internet-enabled STB, or a smartphone, each have a similar chance of being the third type of device.

**Figure 4.24 Device ownership, by the number of types of internet-enabled device in household**



Source: Ofcom research, Quarter 1 2012

Base: Adults aged 16+ who own at least one IP enabled device n = 1927 (one device, n=307; two devices, n=348; three devices, n=364; four devices n=309; five devices n=263; six devices n=187, seven devices n=86)

Note: IP-enabled devices include laptop, games console, desktop PC, smartphone, portable games console, IP enabled STB (Sky+, Sky+ HD, V+ and V+ HD set top boxes), e-reader, tablet, netbook, and smart TV.

## Internet protocol version 6: the next generation of internet addressing

### Internet address

The internet relies on a numeric address scheme to route packets of data across the globe. Each device connected to the internet must have access to a publicly routable internet protocol (IP) address. The current version of IP, version 4 (IPv4), provides around four billion unique addresses. The human-readable form of an IPv4 addresses is numeric: four numbers separated by a dot “.”. For example, the Ofcom website IPv4 address is 194.33.160.25.

### IPv4 exhaustion

The explosive growth and continuing demand for internet-connected devices has exceeded the address limitations of IPv4. The Internet Assigned Numbers Authority (IANA) oversees the distribution of IP address resources to the five Regional Internet Registries (RIRs). On the 3 February 2011, the IANA declared that the central pool of existing IPv4 addresses was “exhausted”. However, each of the RIRs is in varying states of IPv4 address depletion. Once full IPv4 address exhaustion occurs within a registry no further new IP address blocks will be available for allocation. It should be noted that despite IPv4 address exhaustion the internet will continue to operate normally.

### IPv6 – near-limitless internet addressing

The next generation of internet protocol, IPv6, offers a near-limitless supply of IP addresses. There will be  $2^{128}$  addresses, which is approximately 340 million million million million million million addresses. IPv6 incorporates new features, particularly around mobility, improved routing performance, and auto-configuration of devices.



The deployment of IPv6 will eliminate the scarcity of publicly-routable IP addresses and facilitate the connection of new types of devices to the internet. The 'internet of things' will allow sensor networks, machine-to-machine communication, and other new innovative uses of internet and communications technology.

It is likely that the full transition to IPv6 will take years, due to the global scale of existing IPv4 technology deployments. Communications providers, internet infrastructure organisations, online businesses, technology equipment manufacturers and software vendors are slowly moving towards the support of 'dual stack', the support of both IPv4 and IPv6 networking protocols.

#### 4.2.4 Internet take-up

##### Two-thirds of 65 to 74 year-olds now have home internet access

Home internet access in the UK continues to grow, increasing by three percentage points to 80% for Q1 2012 (Figure 4.25). Home internet access is evenly spread across those aged 16 to 54 but decreases beyond this age range. However, the proportion of adults aged 65 to 74 with home internet access grew strongly over the year, rising nine percentage points to 64% by 2012. The proportion of 16-24 year olds with access to the internet grew by five percentage points between 2011 and 2012; to 90%, and brings this age group level with those aged 25 to 34 (90%) and 35 to 54 (88%).

Home internet access is highest for the AB socio-economic group (92%) and lowest for DEs (63%), while access is three percentage points higher among men (81%) than women (78%).

**Figure 4.25 Home internet access by age, socio-economic group, and gender**



Source: Ofcom technology tracker, Q1 2012.

QE2: Do you or does anyone in your household have access to the Internet/Worldwide Web at HOME (via any device, e.g. PC, mobile phone etc)? / QE6: Which of these methods does your household use to connect to the Internet at home?

Base: All adults 16+ (n = 3772 UK, 483 16-24, 608 25-34, 1295 35-54, 596 55-64, 447 65-74, 341 75+, 822 AB, 1085 C1, 765 C2, 1098 DE, 1804 male, 1968 female)

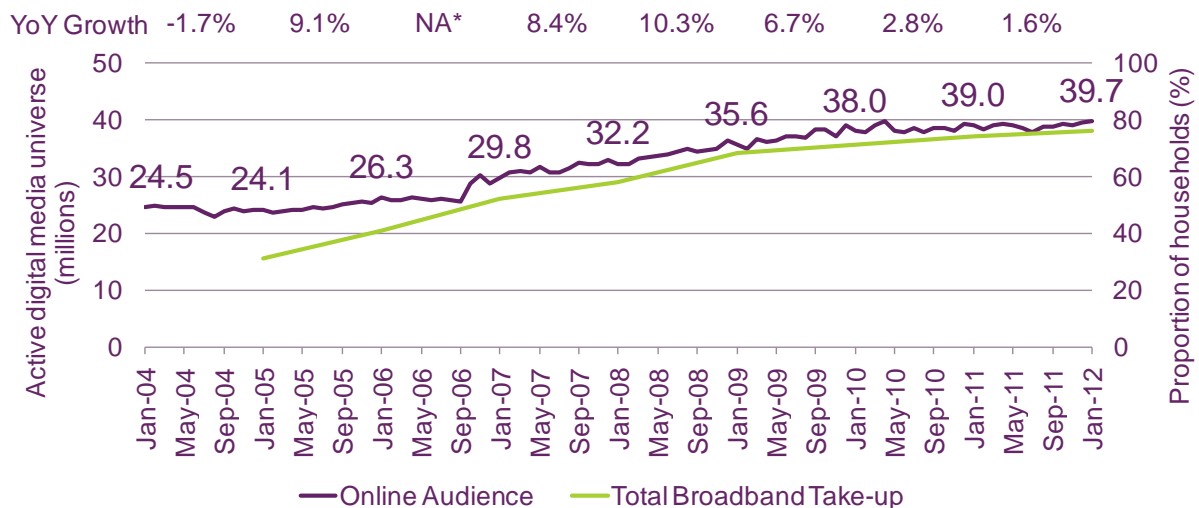
##### Growth of accessing the internet on laptop and desktop computers is slowing

Since January 2004 the size of the UK online audience rose on average 6.2% each year; from 24.5 million to 39.7 million in January 2012. However, the rate of growth appears to be slowing. The year-on-year growth of active internet users in January 2012 was 1.6%,



compared to a high of 10.3% in January 2009. It is likely that the slowing growth of broadband take-up has contributed to the slowing growth of the online audience. Furthermore, Figure 4.26 does not show internet users accessing the internet using internet-enabled devices other than a laptop or desktop PC. Use of other devices to access the internet is also a likely driver of the plateau in active internet users when measured in this way.

**Figure 4.26 Laptop and desktop computer online audience vs. broadband take-up: 2004 – 2011**



Source: Nielsen UKOM, internet users aged 2+, home and work panels, applications included. Ofcom technology tracker, Q1 2012.

Base: Total broadband penetration - all adults aged 16+ (n=3772)

Note: The online audience is an individual aged 2+ that has used an internet enabled home or non shared work computer to go online at least once in the month. \*Due to a change in methodology figures prior to October 2006 should be treated with caution.

### UKOM/Nielsen data on internet use

We use data collected from the UKOM/Nielsen panel to report internet use in the UK.

The panel consists of over 48,000 internet users (44,000 at home and 4,000 at work) who are selected to be a representative sample of UK laptop and desktop computer users as a whole. Monitoring software installed on internet-enabled computers in the panellists' households and workplaces record every activity they undertake on the computer.

The data are collected from UKOM/Nielsen's home and work panel. This means that internet use at both home and work is included.

UKOM/Nielsen considers everyone in the UK aged 2 or above, and there are different measures of reach, or penetration, of internet sites and applications.

**Unique audience** – Unique audience is the total number of unique persons who have visited a website or used an application at least once within the specified reporting period. Persons visiting the same website, or using the same application more than once within the specified reporting period, are only counted once.

**Active reach** – Active reach is the percentage of all active persons aged 2+ who have visited a website or used an application at least once within the specified reporting period. Active is defined as anyone who used an internet-enabled computer within the specified reporting period, without necessarily having going online.

**Time per visitor** – Time per visitor is the total time spent on a website or application divided by its unique audience. This refers only to the 'in focus' website/application, towards which keyboard/mouse activity is directed, excluding minimised websites/applications or websites/applications running in the background. During periods of inactivity, where the mouse or keyboard are not used to control an application, Nielsen will measure up until 30 minutes before discounting the time since the last period of activity.

**Time spent online** – this is the sum of the time spent when the internet browser *and* any applications that utilise an internet connection was the 'in focus' application.

**Share of total time** – Share of total time is the percentage of the total time all users spent online which was spent on a specified site, application or activity, within the specified reporting period.

**Unique audience composition** – Unique audience composition is the percentage of the unique audience of a site which is from a specified demographic group. Site rankings by unique audience composition are determined by the size of a proportion relative to the unique audience composition of other sites for the same demographic group.

**Page views per person** – Page views per person is the total number of times a web page has been requested by users in the specified reporting period divided by its unique audience. Page views are counted only when they fully load into the browser window.

**Overlapping and unduplicated audience** – Overlapping audience is the unique audience of a site which also visited a second designated site within the specified reporting period. Unduplicated audience is the unique audience of a site which did not visit a second designated site within the specified reporting period.

**Proportion of referred traffic** – Proportion of referred traffic is the percentage of unique visitors to a site that were referred through a link from a designated source.

However, it should be noted that only internet use on laptop and desktop computers is captured. This means that internet use on mobile phones, and on other devices such as games consoles, tablet computers and internet-connected televisions is not included. Therefore total internet use is likely to be understated and data detailing change over time should be treated with some caution, as it may be that internet users are increasingly substituting time spent on the internet on a laptop or desktop computer with time spent accessing the internet via other devices.

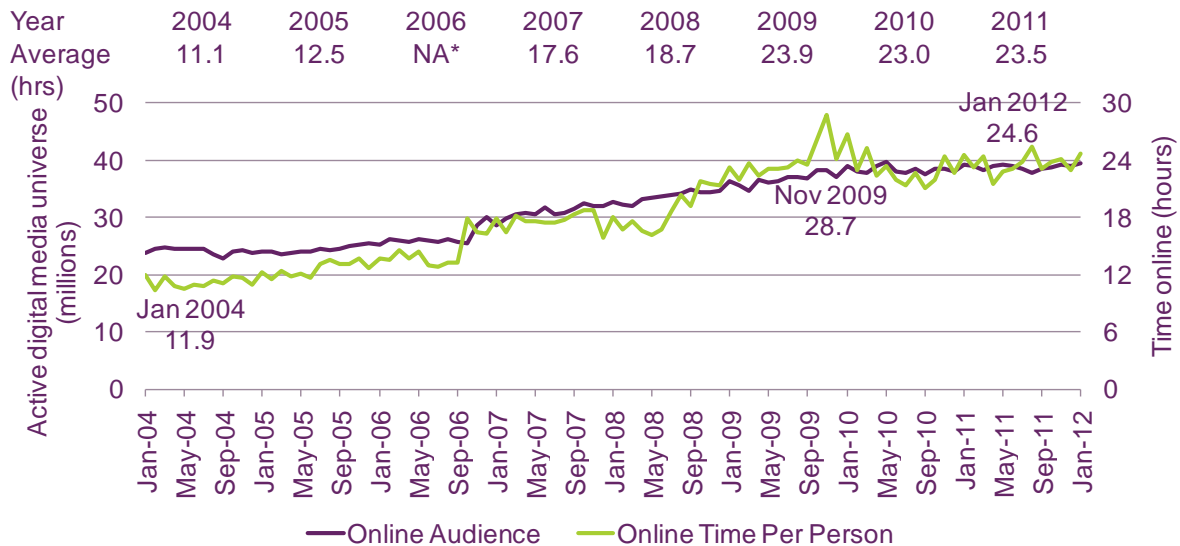
#### **4.2.5 Time spent online**

##### **In 2011 desktop and laptop internet users spent an average of 23.5 hours online per month**

In January 2012 the average amount of time internet users spent online through a laptop or desktop was 24.6 hours per month, more than double the amount of time users spent online in January 2004. However, the growth in time spent online appears to have plateaued. The average time online per month increased by only half an hour between 2010 and 2011; to 23.5 hours, and while increasing, this is still less than the peak average of 23.9 hours month in 2009. Two likely reasons for this slowed growth are the effect of late adopters and the

growth of other internet-enabled devices. Late adopters of the internet characteristically spend less time online than average, so as more late adopters get connected the average time online may decrease. Furthermore, the data in Figure 4.27 do not include time spent online on smartphones, tablets, or other internet-connected devices, which are likely to be substituting for time online on laptop and desktop computers.

**Figure 4.27 Active internet users and time online on a laptop or desktop computer: 2004 – 2011**



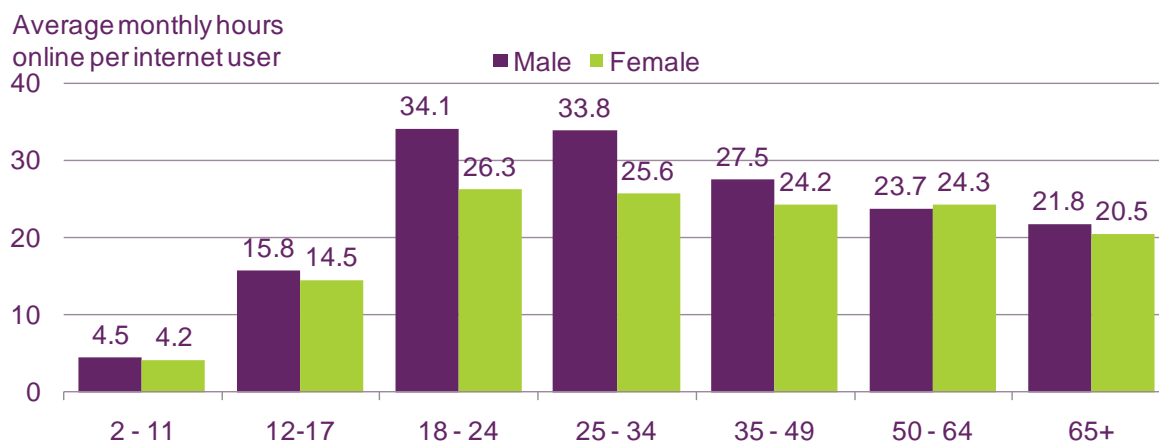
Source: Nielsen UKOM, internet users aged 2+, home and work panels, applications included.  
 Note: The online audience is an individual aged 2+ that has used an internet enabled home or non shared work computer to go online at least once in the month. Online time per person is the average time spent using a web browser or internet enabled application across the online audience.  
 \*Due to a change in methodology figures prior to October 2006 should be treated with caution.

### Young adult men spend the most time online on a laptop or desktop computer

Men aged between 18 and 24 years old spent more time online via a laptop or desktop computer (34.1 hours) than any other age/gender group, and almost 10 hours more per month than the UK average of 24.2 hours for March 2012.

Males spent more time online in all age groups apart from the 50-64 group, in which women spent approximately 36 minutes longer online per month than men. The greatest difference of time spent online on a desktop or laptop computer between genders was among 25-34 year olds, where men spent 8.2 hours online more than women. The smallest difference was in the youngest age group; children aged between two and eleven, where boys spent just 16 minutes more than girls online.

**Figure 4.28 Average time spent on the internet on a laptop or desktop, by age and gender**

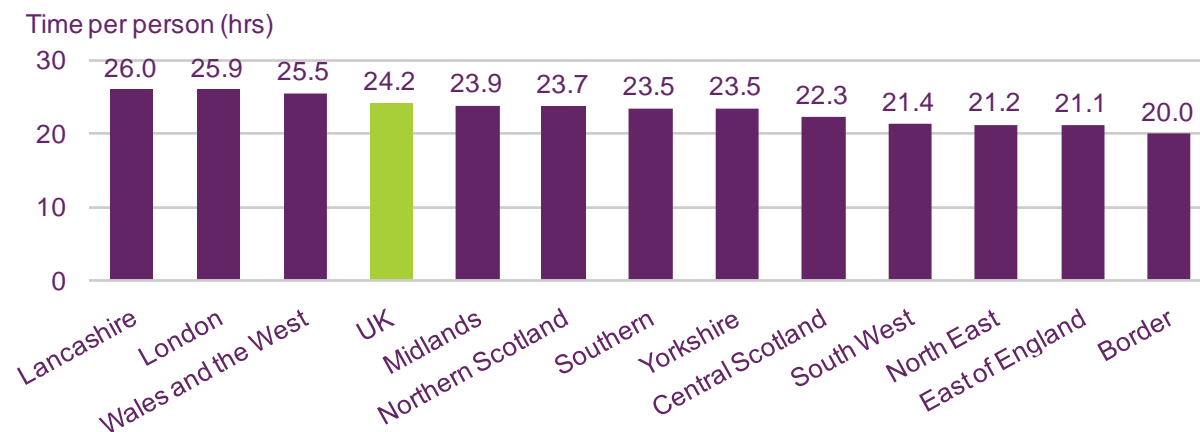


Source: UKOM/Nielsen, March 2012, Home and Work Panel, applications included

**Internet users in Lancashire and London spend the most time online on a laptop or desktop computer**

In March 2012, internet users in Lancashire and London spent the most time online on a laptop or desktop computer, averaging 26 hours, and 25.9 hours, per user per month. Internet users in Wales and the West, which includes Somerset, Avon and Wiltshire, also spent more than the average length of time online: 25.5 hours.

**Figure 4.29 Time spent online on a laptop or desktop computer, by region**



Source: UKOM/Nielsen, home and work panel, applications included. Month of March 2012. Regions based on ISBA regions.

Base: Internet users aged 2+.

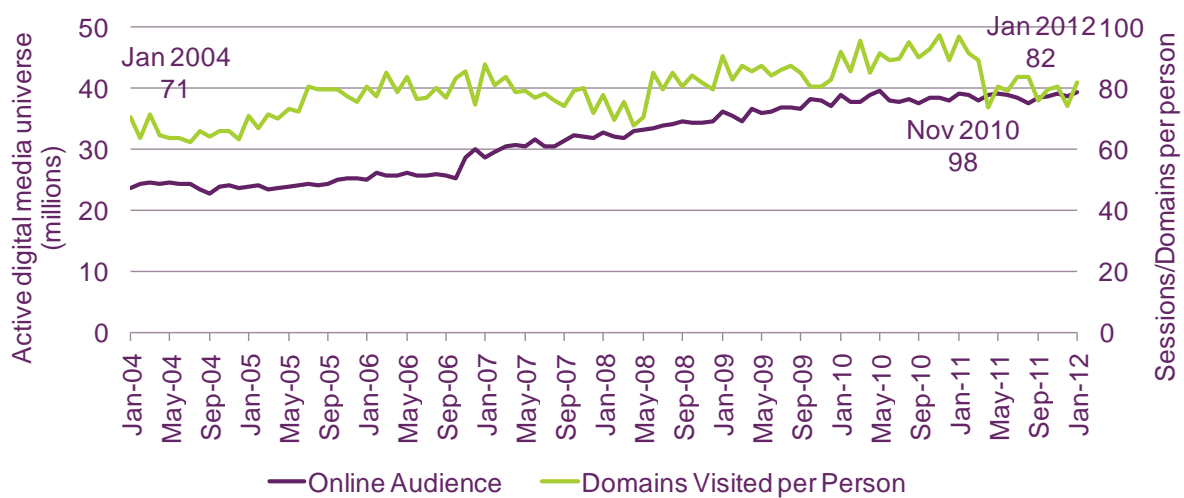
**On average, internet users are visiting fewer domains.**

A domain name is the string of number and letters which identify a website and end in .com, .co.uk, .gov.uk etc. Typically, one individual or organisation owns a domain name by which internet users can navigate different content and services. For example, bbc.co.uk is the domain for the BBC and a visit to BBC News (bbc.co.uk/news) and BBC Weather (bbc.co.uk/weather), while different websites, would count as a visit to one domain. The

average number of domains visited per person per month provides an indication as to the number of different websites representing one organisation that an internet user has visited.

The average number of domains an internet user visited in January 2012 was 82, eleven more than eight years previously in January 2004. However, the number of domains visited reached a peak of almost 100 per person (98) in November 2010. The decline since late 2010 indicates that internet users on average are visiting fewer websites. This could be accounted for by leading websites providing a number of different services or content to internet users; e.g. Google is now a search engine, an email provider, and provides a social network (see section 4.3.3). Alternatively, the decline could represent the fact that late adopters of the internet visit fewer websites, or reflect the use of alternative internet-enabled devices such as smartphones or tablets to access website content.

**Figure 4.30 Online audience and domains visited per person on laptop and desktop computers: 2004 – 2011**



Source: Nielsen UKOM, internet users aged 2+, home and work panels, applications included.  
 Note: The online audience is an individual aged 2+ that has used an internet enabled home or non shared work computer to go online at least once in the month. Due to a change in methodology figures prior to October 2006 should be treated with caution.

### 4.2.6 Digital inclusion

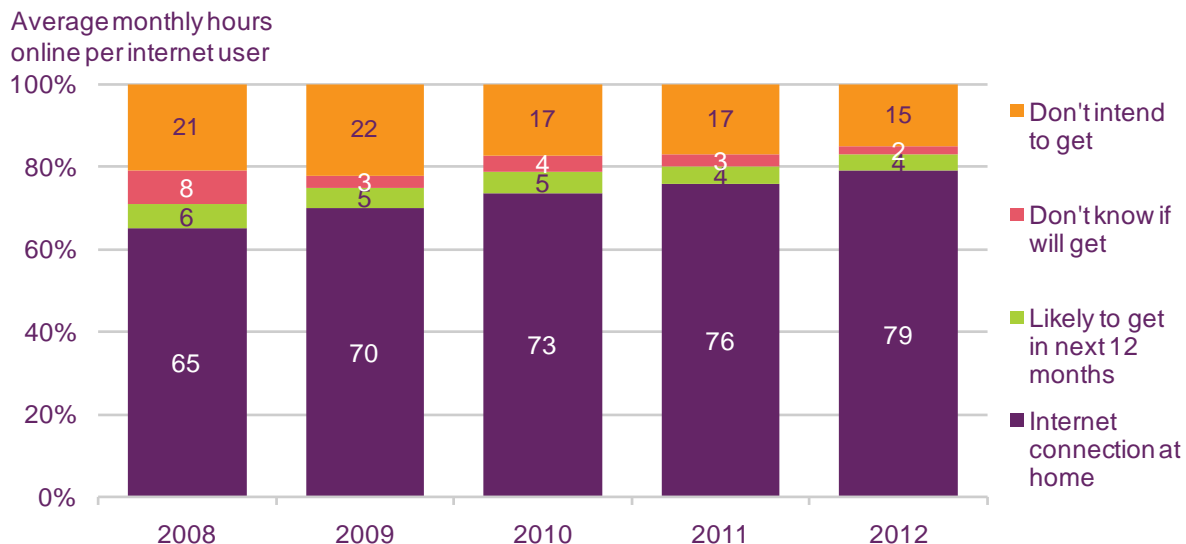
#### One in seven UK adults say they do not intend to get the internet in the next year

Ofcom’s *Internet Use and Attitudes Bulletin*, published as Annex A of this report, summarises a range of Ofcom survey data relating to digital inclusion issues. It monitors take up, breadth of internet use, and core attitudes towards the internet among a variety of sub-groups. It is important to understand which groups within the population are not participating or using the internet as much as others, and those in low income groups and from older age groups are particularly vulnerable in this respect.

The *Bulletin* also provides evidence about non-users of the internet – who they are, why they say they don’t want the internet, and their levels of interest in possible types of internet activity. These are described in the findings below.

Seventy-nine per cent of the UK adult population have the internet at home, and 77% use it<sup>95</sup>. So there remains a sizeable minority of the UK population who are not using the internet, and do not want to take it up. As Figure 4.31 shows, one in seven (15%) adults say they do not intend to get the internet in the next year.

**Figure 4.31 Internet take-up and intentions: 2008-2011**



Source: Ofcom research, QE2/ QE24 – Do you or does anyone in your household have access to the internet / world wide web at home (via any device)?/ How likely are you to get internet access at home in the next 12 months?

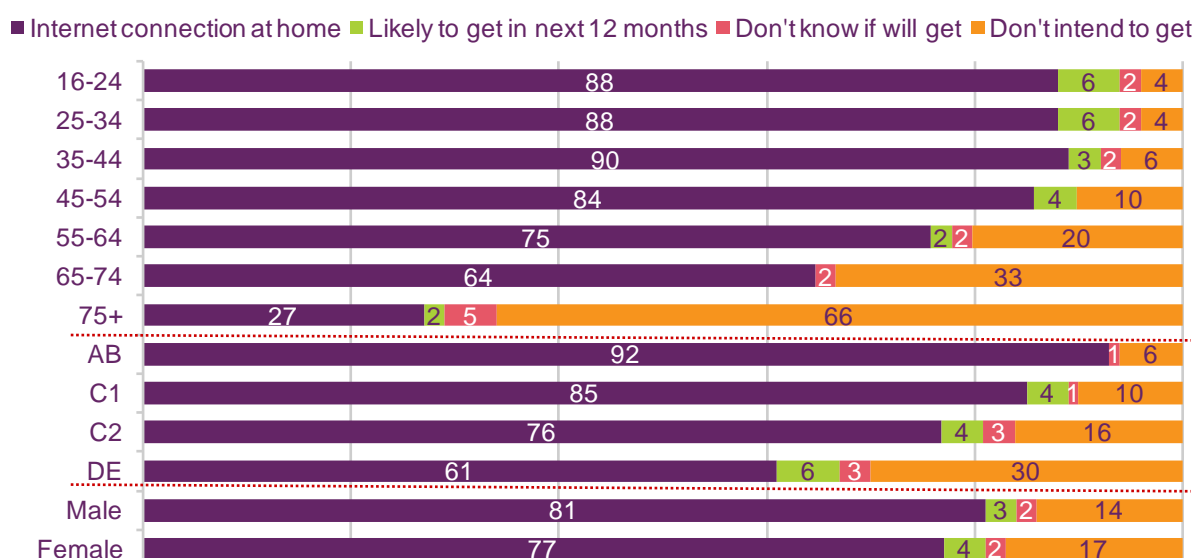
Base: All adults aged 16+ (5812 aged 16+ in 2008, 6090 aged 16+ in 2009, 9013 aged 16+ in 2010, 3474 aged 16+ in 2011, 3772 aged 16+ in 2012, 483 aged 16-24, 608 aged 25-34, 713 aged 35-44, 582 aged 45-54, 596 aged 55-64, 447 aged 65-74, 341 aged 75+, 822 AB, 1085 C1, 765 C2, 1098 DE), 1804 male, 1968 female).

Note: Ofcom research, fieldwork carried out by Saville Rossiter-Base in January to February 2012

There are a number of demographic groups for whom this is particularly the case, as Figure 4.32 illustrates. One-third (33%) of people aged 65-74 say they don't intend to get the internet in the next 12 months, and two-thirds (66%) of those aged 75 or over. Three in ten (30%) of those in the DE socio-economic group say they don't intend to get the internet, compared to 6% of those in AB households.

<sup>95</sup> 2% of households responded "Yes – have access but don't use at home" to the question QE3 (QE2). Do you or does anyone in your household have access to the internet/ world wide web at HOME (via any device, e.g. PC, mobile phone etc)? Source: Ofcom Technology Tracker Q1 2012. NB the 79% figure excludes respondents who did not state mobile phone as an access method but did use internet-enabled features of a mobile and is not equivalent to Figure 4.17

**Figure 4.32 Internet take-up and intentions, by demographic group**



Source: Ofcom research, QE2/ QE24 – Do you or does anyone in your household have access to the internet / world wide web at home (via any device)?/ How likely are you to get internet access at home in the next 12 months?

Base: All adults aged 16+ (5812 aged 16+ in 2008, 6090 aged 16+ in 2009, 9013 aged 16+ in 2010, 3474 aged 16+ in 2011, 3772 aged 16+ in 2012, 483 aged 16-24, 608 aged 25-34, 713 aged 35-44, 582 aged 45-54, 596 aged 55-64, 447 aged 65-74, 341 aged 75+, 822 AB, 1085 C1, 765 C2, 1098 DE), 1804 male, 1968 female).

Note: Ofcom research, fieldwork carried out by Saville Rossiter-Base in January to February 2012

### Most people without the internet at home cite lack of interest as the core factor

People who do not have the internet at home are asked in our media literacy survey why this is the case. They are unprompted, and can give as many reasons as they want to. Figure 4.33 gives a summary of the reasons given by those who do not intend to get the internet at home in the next 12 months.

Most give reasons relating to a lack of interest, as in previous years (78% in both 2011 and 2010). The next most likely reason for not intending to get internet access relates to cost (30% vs. 35%), followed by reasons relating to ownership / availability (20% vs. 26%); typically that they do not have a computer (18%), with some saying that they do not have a landline telephone (1%). Those who do not intend to get the internet at home then give reasons that relate to knowledge (14% vs. 17%); typically that they don't know how to use a computer (13%).

The incidence of nominating 'cost' as a reason for not getting internet access at home may exclude a proportion of respondents who did not feel comfortable nominating this particular reason. Those stating 'a lack of interest' as a possible reason could be masking those that do not intend to get the internet at home for various underlying reasons, such as a lack of experience or a lack of confidence regarding the internet, or a combination of such factors.

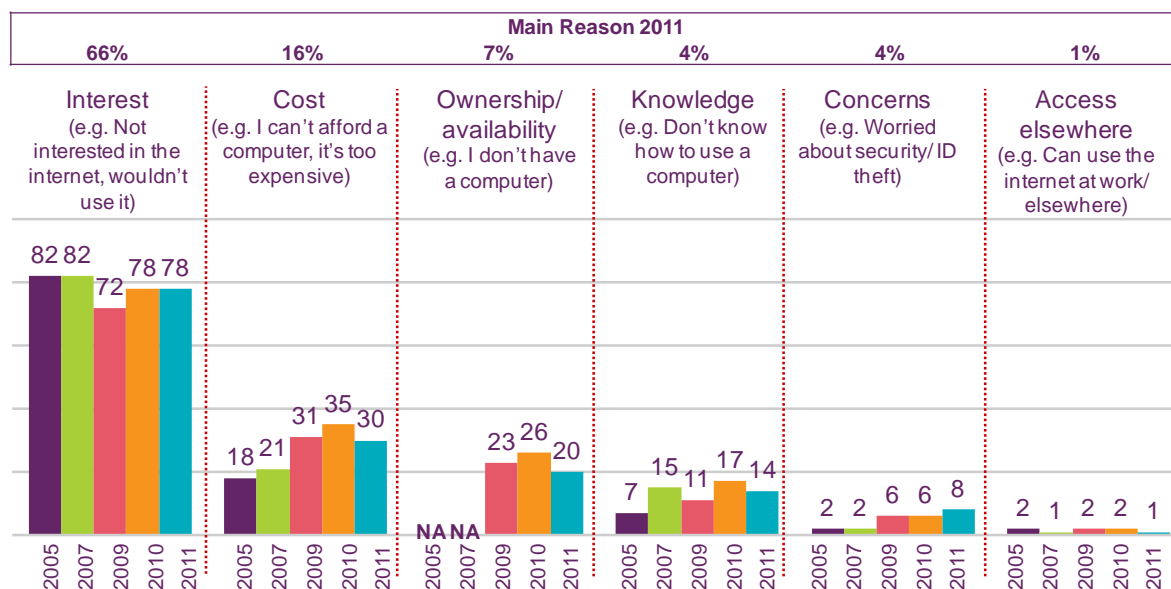
It is worth noting that as take-up of the internet has increased over time, the demographic make-up of the non-user population has changed. The reasons given by non-users over time will therefore reflect this change.

Adults were also asked to give their main reason for not getting internet access at home. As shown in Figure 4.33, two in three (66%) gave a main reason relating to a lack of interest,



with most others giving a main reason relating to cost (16%). Cost as a main reason for not intending to get the internet at home has decreased since 2010 (16% vs. 23%).

**Figure 4.33 Stated reasons for not intending to get home internet access in the next 12 months: 2005, 2007, 2009, 2010 and 2011<sup>96</sup>**



Source: Ofcom research, fieldwork carried out by Saville Rossiter-Base in September to October 2011

IN17/ IN18– Can you tell me what your reasons are for not getting internet access at home? (Unprompted responses, multi-coded)/ And what is your main reason for not getting internet access at home? (Unprompted responses, single coded)

Base: All adults aged 16+ who do not intend to get internet access at home (930 in 2005, 743 in 2007, 410 in 2009, 478 in 2010, 328 in 2011). Significance testing shows any change between 2010 and 2011. Percentages may add to more than 100% as respondents can nominate more than one reason.

### There is little appetite among non-users for internet activities

Finally, we ask respondents on our media literacy survey whether they have any interest in various types of internet activity, to gauge whether or not there is an appetite in these groups for being online.

We find that over time, levels of interest in various activities have remained very low, implying that untapped demand for internet access is small, with around one in eight (14%) or fewer expressing an interest in each activity. Across the functions, there are no differences since 2010.

As explored further in Ofcom's *Adults' media use and attitudes report*<sup>97</sup>, in 2011, non-users aged under 65 are more likely than those aged 65 and over to be interested in buying things over the internet (18% vs. 7%), transferring photos from a digital camera or mobile phone to a computer (18% vs. 7%), finding out about local services (18% vs. 6%), completing

<sup>96</sup> The questionnaires used in the 2005 and 2007 surveys did not include non-ownership of equipment as a possible category for the responses people gave about why they did not intend to get access to the internet at home. The number of categories was extended in the 2009 survey.

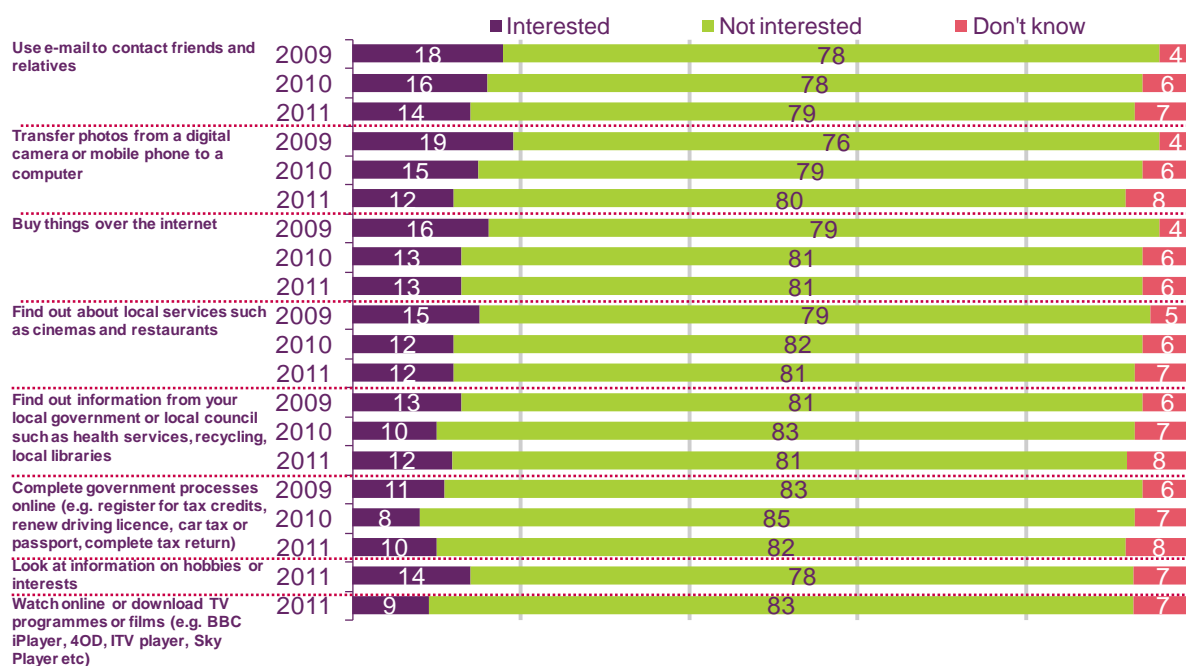
<sup>97</sup> <http://stakeholders.ofcom.org.uk/binaries/research/media-literacy/media-use-attitudes/adults-media-use-2012.pdf>



government processes online (16% vs. 5%) and watching online or downloading TV programmes (14% vs. 6%).

There are four activities among non-users in which women are more interested than men: looking at information on hobbies and interests (19% vs. 10%), buying things over the internet (17% vs. 8%), finding out information from their local government or local council such as health services, recycling, local libraries (15% vs. 8%) and watching online or downloading TV programmes or films (13% vs. 6%).

**Figure 4.34 Interest in internet functions among non-users: 2009 - 2011**



Source: Ofcom research, fieldwork carried out by Saville Rossiter-Base in September to October 2011

IN10A-M –I’m going to read out some different types of tasks associated with the internet, PCs or laptops, and for each one please say which of the options on the card applies to you. (Prompted responses, single coded)

Base: Adults aged 16+ who do not use the internet at home or elsewhere (542 in 2009, 628 in 2010, 454 in 2011) – significance testing shows any change between 2010 and 2011

## 4.3 Web-based content

### 4.3.1 Introduction

This section explores the kinds of content and services which people access through the internet.

- Section 4.3.2 gives an overview of the most popular online sectors, websites and applications. This includes changes over time and a demographic breakdown by age group.
- Section 4.3.3 focuses in greater detail on functions related to search and browsing. There is some consideration of the range of other services offered by leading search engines.
- Section 4.3.4 examines social networking, both in terms of the popularity of different sites, and the potential for this platform to act as a driver of web traffic.
- Section 4.3.5 is concerned with online video, with most emphasis on video-sharing sites.
- Section 4.3.6 addresses the topic of online shopping, with particular attention to coupons and rewards sites.
- Section 4.3.7 considers the impact of the internet on the consumption of news, especially as it relates to the online versions of print newspapers.

### Key findings

The key findings from this section of the report are:

- **Google Search, Facebook and YouTube are the most popular websites in the UK.** In March 2012, Google Search had 31.2 million unique visitors, Facebook had 25.8 million unique visitors, and YouTube had 20.8 million unique visitors. These are mass audience internet phenomena, which lead the fields of search engines, social networks and entertainment sites respectively.
- **Nearly two-thirds of internet users in the UK are on Facebook.** In March 2012, 64% of the entire online audience visited Facebook. Between March 2011 and March 2012 the average time per visitor per month on the site was six and a half hours. The social network is also driving a great deal of web traffic, through links posted by members: 23.7% of all referred traffic to YouTube originated on Facebook in March 2012.
- **Time spent on video-sharing sites has increased, as visitors spend longer on YouTube.** Time spent on video-sharing sites grew by 43% between March 2011 and March 2012. YouTube accounts for most of this rise, although its unique audience remained flat over the same period. In January 2012, 3.7 billion videos were viewed on YouTube.
- **In the past three years e-commerce has grown at ten times the rate of other retail sales.** The value of retail sales transacted online increased by 44% from £1.8bn in February 2010 to £2.6bn in February 2012. This compares to an increase in the value of retail sales transacted on the high street of 4%; from £21.1bn to

£22.0bn. Amazon (18.5 million unique visitors in March 2012) and eBay (17.1 million) are the most popular shopping sites, and have more unique visitors than brands with a high street presence like Tesco (7.3 million).

- **Consumers are accessing multiple sources of news online.** Overlap of audiences between news sites is generally high, especially when content is available for free. Visitors to BBC News are also likely to visit the websites of newspapers, such as *The Independent* (64.2% of BBC News audience in March 2012), *The Guardian* (63.0%) and *The Telegraph* (60.9%).

### 4.3.2 Overview

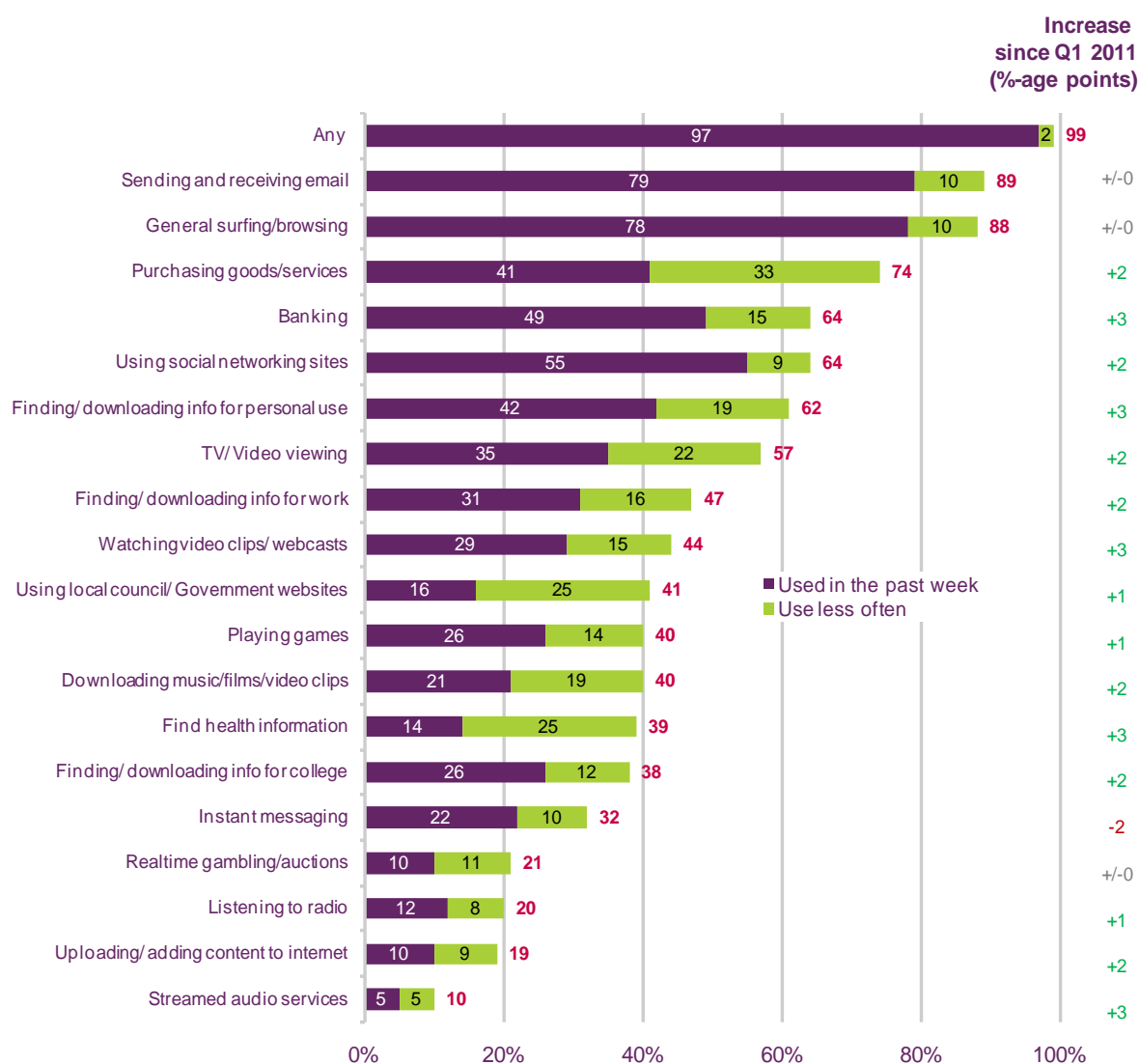
#### **Accessing email and surfing the web are the most widely undertaken activities on the internet in the UK**

The Ofcom *Technology Tracker* (Q1 2012) shows that among consumers with a broadband connection at home the most widely undertaken activities on the internet were sending and receiving email (89% of respondents) and general surfing or browsing of the web (88% of respondents) (Figure 4.35). These were also the activities which most respondents claimed to have engaged in within the last week (79% and 78% respectively).

While 74% of respondents had ever purchased goods or services on the internet, 64% had ever used online banking and 64% had ever accessed social networking sites. In the past week, 41% of respondents had shopped online, while 49% had used online banking and 55% had accessed social networking sites. This indicates that these activities are being undertaken more regularly, although among a smaller proportion of the online population than those who engage in e-commerce.

The most marked increases since last year were for online banking (up 3pp to 64%), finding or downloading information for personal use (up 3pp to 62%), watching video clips or webcasts (up 3pp to 44%), finding health information (up 3pp to 39%), and streaming audio services (up 3pp to 10%). The largest decrease was for instant messaging, which fell 2pp to 32%, although on mobile devices instant messaging increased by five percentage points (see section 5.1.4). Overall, Figure 4.35 shows little substantial change since Q1 2011.

**Figure 4.35 Claimed use of the internet for selected activities**



QE5. Which, if any, of these do you or members of your household use the internet for whilst at home?

Source: Ofcom research, Q1 2012

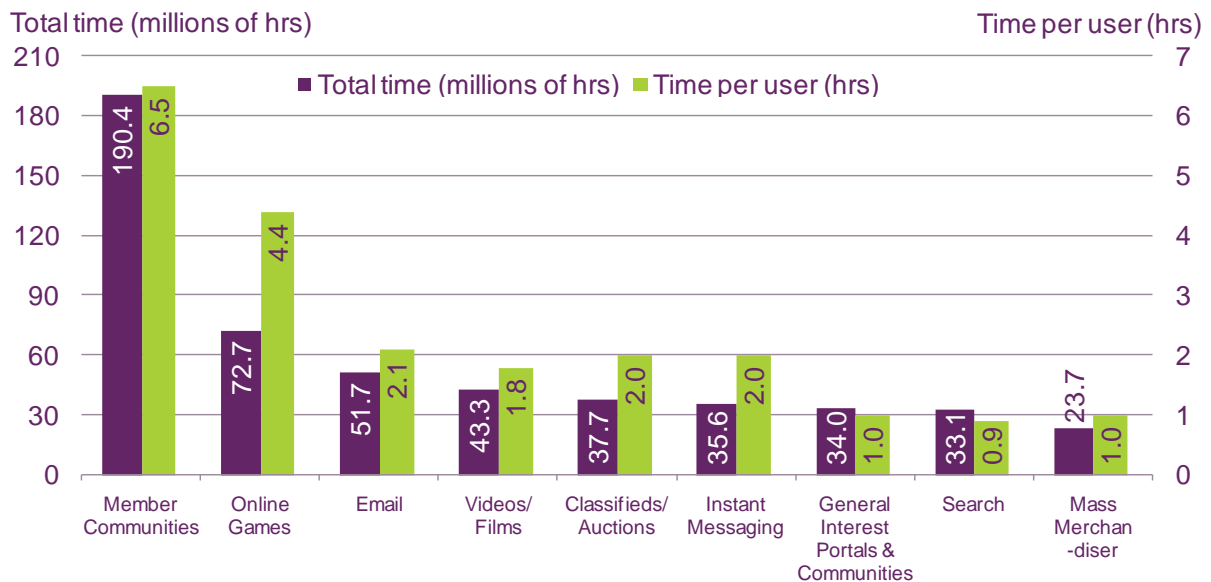
Base: Adults 16+ with a broadband connection at home (n=2727 UK)

### UK internet users spent most time on social networks and blogging communities

Drawing on data from UKOM/Nielsen, Figure 4.36 shows the total time spent on selected categories of websites and applications, and the time per user within each of those categories. Member communities, which includes social networks like Facebook and blogging communities like Tumblr, is the most popular category on both measures. In March 2012, 190.4 million hours were spent on sites like this, with each user averaging 6.5 hours per month. In terms of total time spent, member communities were much more popular than the next largest categories, online games (72.7 million hours), email (51.7 million hours) and videos/films (43.3 million hours). However, online games had a particularly high level of time per user: 4.4 hours per user per month, compared to 2.1 hours per user per month for email and 1.8 hours per user per month for videos/films. UKOM/Nielsen data only captures behaviour on desktop and laptop computers, and therefore does not take account of time

spent on other internet-enabled devices, such as smartphones, tablets and connected games consoles.

**Figure 4.36 Time spent on selected categories of websites and applications on desktop and laptop computers**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, applications included, month of March 2012

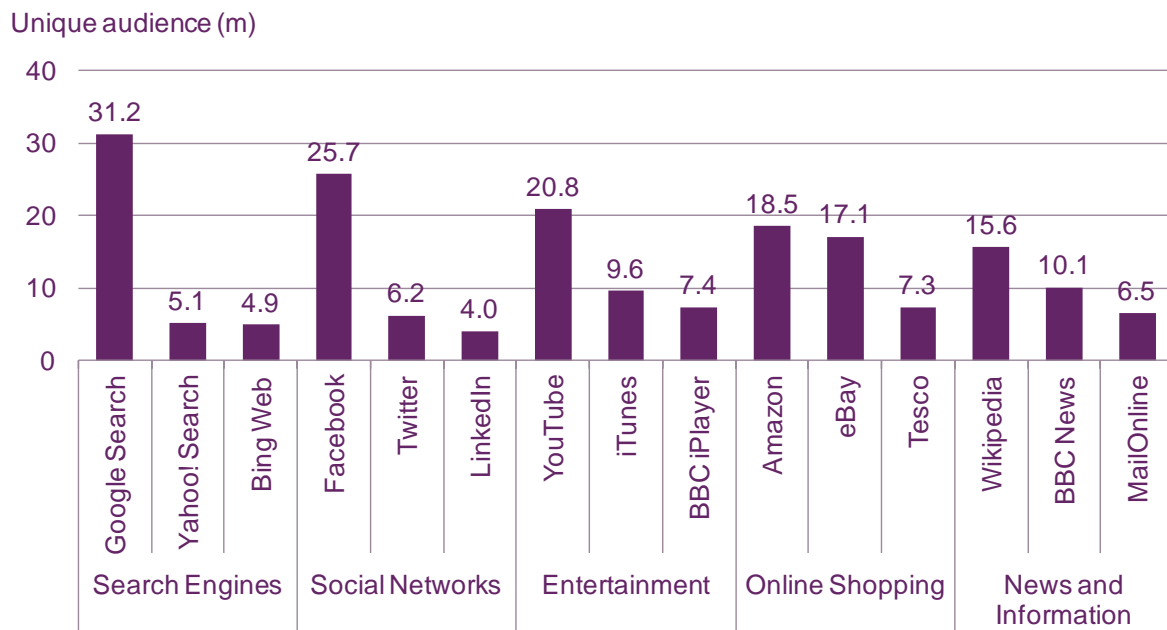
Note (1): Total time is the total time spent on sites and applications within the specified category.

Note (2): Time per user is the total time spent on sites and applications within the specified category divided by its unique audience.

### Google Search, Facebook and YouTube are the most popular sites on the web

In March 2012, Google Search, Facebook, YouTube, Wikipedia and Amazon were the most popular sites accessed on desktop and laptop computers by number of unique visitors, within the respective categories of search, social networking, entertainment, online shopping, and news and information (Figure 4.37). Google Search (31.2 million unique visitors per month), Facebook (25.7 million) and YouTube (20.8 million) had the largest unique audiences overall, and each had a substantial lead within its respective field. Among search engines, Google Search was ahead of the nearest competitor Yahoo! Search by 26.1 million unique visitors per month. Among social networks, Facebook was the leading site, with 19.5 million unique visitors per month more than Twitter. Among entertainment sites there was a margin of 11.2 million unique visitors per month separating the second-ranked site iTunes from YouTube. However, the differences between leading sites in online shopping and news and information were much smaller: 1.4 million unique visitors per month between Amazon and eBay, and 5.5 million unique visitors per month between Wikipedia and BBC News.

**Figure 4.37 Leading sites in selected categories, by unique audience**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, applications included, month of March 2012

Note: Unique audience is the total number of unique persons who have visited a website at least once within the specified reporting period. Persons visiting the same website more than once within the specified reporting period are only counted once.

### Older users access services and information online, while younger users prefer watching videos and social networking

Figure 4.38 ranks sites according to the proportion of their unique audience that was from a particular age group in March 2012. The unique audiences of the ten most popular sites overall have been split by demographic segment, expressed as a proportion of the unique audience of each site. This allows for like-for-like comparisons between sites, within the specified age group.

Internet users aged between 2 and 17, and 18 and 24, constituted a larger proportion of YouTube's unique audience than they did for any other site. YouTube ranked tenth among those aged 50-64, and ninth among those aged 65 or over. Amazon was the leading site among these age groups, but ranked tenth among the two youngest age groups. Facebook and MSN/Windows Live/Bing ranked highly among users aged 2 to 34 years old, while Wikipedia and the BBC were more popular among users aged 35 and older. Younger age groups therefore seem to use the internet more for search, social networking and as an entertainment destination, while older age groups visit more for news, information, and online shopping websites.

**Figure 4.38 Relative popularity of the top ten websites on desktop and laptop computers, by age group**

Rank	2-17	18-24	25-34	35-49	50-64	65+
1	YouTube	YouTube	Microsoft	eBay	Amazon	Amazon
2	Google	MSN/Windows Live/Bing	MSN/Windows Live/Bing	BBC	BBC	Microsoft
3	Facebook	Facebook	Yahoo!	Amazon	Yahoo!	BBC
4	BBC	Wikipedia	Facebook	Wikipedia	Microsoft	Wikipedia
5	MSN/Windows Live/Bing	Yahoo!	YouTube	Yahoo!	eBay	Yahoo!
6	Wikipedia	Microsoft	eBay	MSN/Windows Live/Bing	Google	eBay
7	Yahoo!	Google	Google	Google	Wikipedia	Google
8	eBay	eBay	Amazon	Facebook	Facebook	Facebook
9	Microsoft	BBC	Wikipedia	YouTube	MSN/Windows Live/Bing	YouTube
10	Amazon	Amazon	BBC	Microsoft	YouTube	MSN/Windows Live/Bing

Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, applications included, month of March 2012

Note (1): Unique audience is the total number of unique persons who have visited a website or used an application at least once within the specified reporting period. Persons visiting the same website or using the same application more than once within the specified reporting period are only counted once.

Note (2): Unique audience composition is the percentage of the unique audience of a site or application which is from a specified demographic group. The ranking of sites/applications is determined by the size of that proportion relative to the unique audience composition of other sites/applications for the same demographic group.

Note (3): Google excludes YouTube.

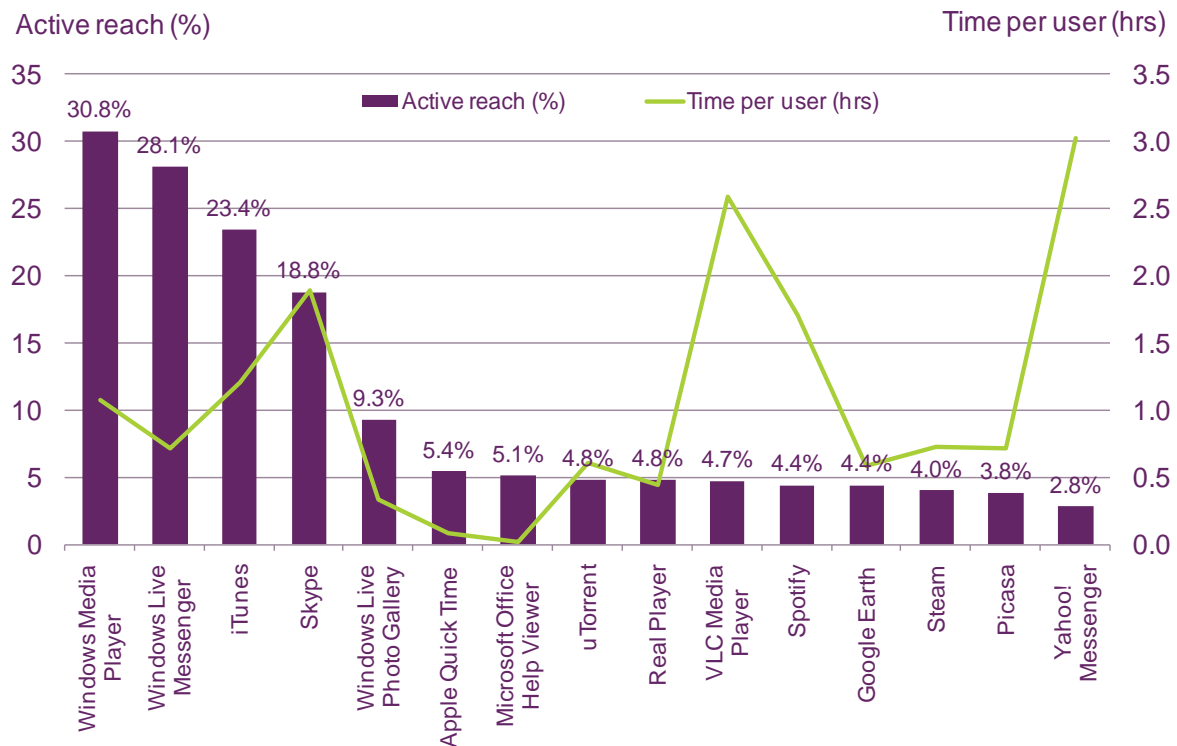
### Microsoft's Windows Media Player and Windows Live Messenger are the applications with the greatest reach on desktop and laptop computers

The most popular online applications for desktop and laptop computers in March 2012 were Microsoft's Windows Media Player and Windows Live Messenger (Figure 4.39). Of those who were active on an internet-enabled computer during the month, 30.8% used the media player application Windows Media Player, while 28.1% used the instant messaging application Windows Live Messenger. Apple's iTunes, an application for playing, organising and downloading music, had the third largest active reach, at 23.4%.

However, despite having smaller audiences, some competing applications appear to have higher levels of engagement among users. Users of Yahoo! Messenger, a rival instant messenger, spent an average of 3.0 hours per month using the application, compared to an average of 0.7 hours for Windows Live Messenger. Users of VLC Media Player, a rival media player, spent an average of 2.6 hours per month using the application, compared to an average of 1.1 hours for Windows Media Player. Nevertheless Microsoft's Skype, an

instant messaging and VoIP application, had both a comparatively high active reach and average time per user (18.8% and 1.9 hours per month respectively).

**Figure 4.39 Most popular applications on desktop and laptop computers, by active reach**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, month of March 2012

Note (1): Active reach is the percentage of all active 2+ persons who used the application within the specified reporting period. Active is defined as anyone who used an internet-enabled computer within the specified reporting period.

Note (2): Time per user is the total time spent on the application divided by its unique audience. This refers only to the in focus application, towards which keyboard/mouse activity is directed, excluding minimised applications or applications running in the background. The metrics are not always compatible as applications that tend to require users to keep them in focus the whole time, such as video or messaging applications, will record higher time per person than audio applications which can run in the background.

### 4.3.3 Search and browsing

#### Higher levels of engagement with web-based email services than with search engines

As highlighted in Figure 4.37, the three most popular search brands in the UK are Google, Yahoo! and Microsoft. However, each of these brands offers a range of services besides search, including web-based email, maps, news, instant messaging, social networking, and communities for sharing pictures, videos and music. Figure 4.40 illustrates the most popular search, email and reference services offered by Google, Yahoo! and Microsoft.

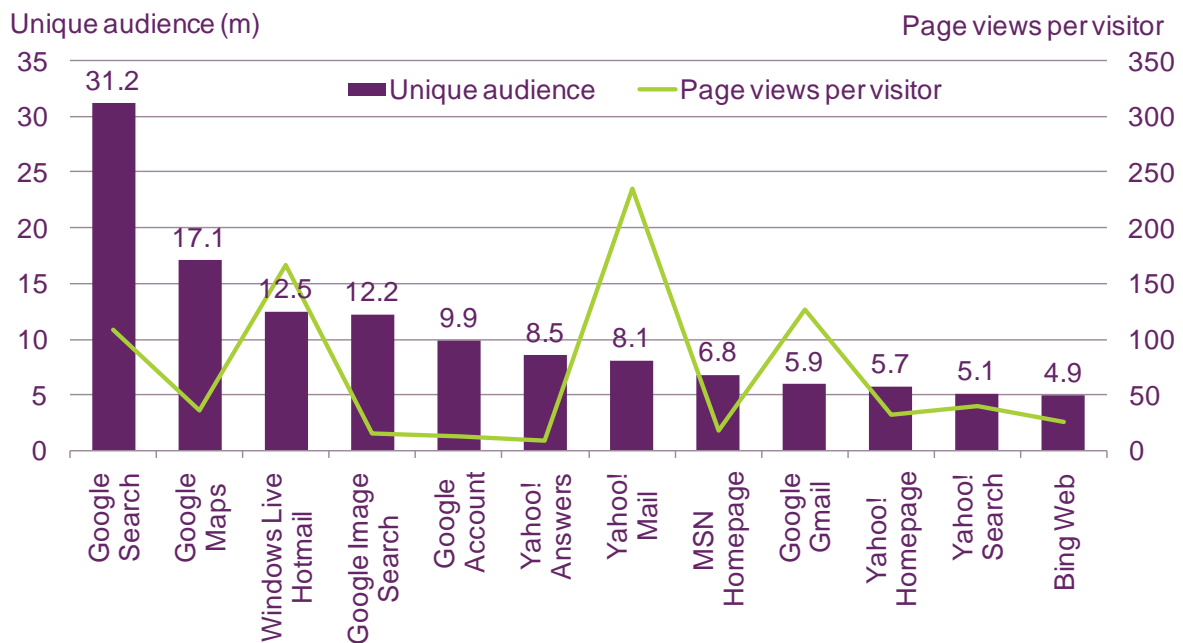
For Yahoo! and Microsoft, search is not the most popular service. For Yahoo!, Yahoo! Answers (8.5 million unique visitors per month), Yahoo! Mail (8.1 million) and the Yahoo! Homepage (5.4 million) are all more popular than Yahoo! Search (5.1 million), although Yahoo! Search is embedded within the Yahoo! homepage. For Microsoft, Windows Live Hotmail (12.5 million unique visitors per month), Windows Live Messenger (11.4 million) and



the MSN homepage (6.8 million) are all more popular than Bing Web (4.9 million). Again, Bing Web is embedded within the MSN Homepage. In contrast, Google Search is, by a considerable margin, the most popular of Google's search, email and reference services (31.2 million unique visitors per month), and this popularity extends to other search-based services such as Google Maps (17.1 million) and Google Image Search (12.2 million).

The web-based email services provided by Google, Yahoo! and Microsoft are each more frequently used per visitor than the search engines of these brands. In addition to unique audience, Figure 4.40 shows the average number of pages viewed, per month, by each of the visitors to the web services included in the chart. While unique audience is a measure of the popularity of a website among all web users, page views per person can be used as a comparative measure of how often a website is visited by those who use it. Yahoo! Mail is visited the most per visitor (235 page views per visitor per month), followed by Microsoft's Windows Live Hotmail (167 page views per visitor) and Google Gmail (126 page views per visitor).

**Figure 4.40 Most popular search, email and reference services offered by Google, Microsoft and Yahoo!**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, applications included, month of March 2012

Note (1): Unique audience is the total number of unique persons who have visited a website or used an application at least once in the specified reporting period. Persons visiting the same website or using the same application more than once in the reporting period are only counted once.

Note (2): Page views per visitor is the total number of times a web page has been requested by a user in the specified reporting period divided by its unique audience. Page views are counted only when they fully load into the browser window.

### Search on desktop and laptop computers seems to be levelling off

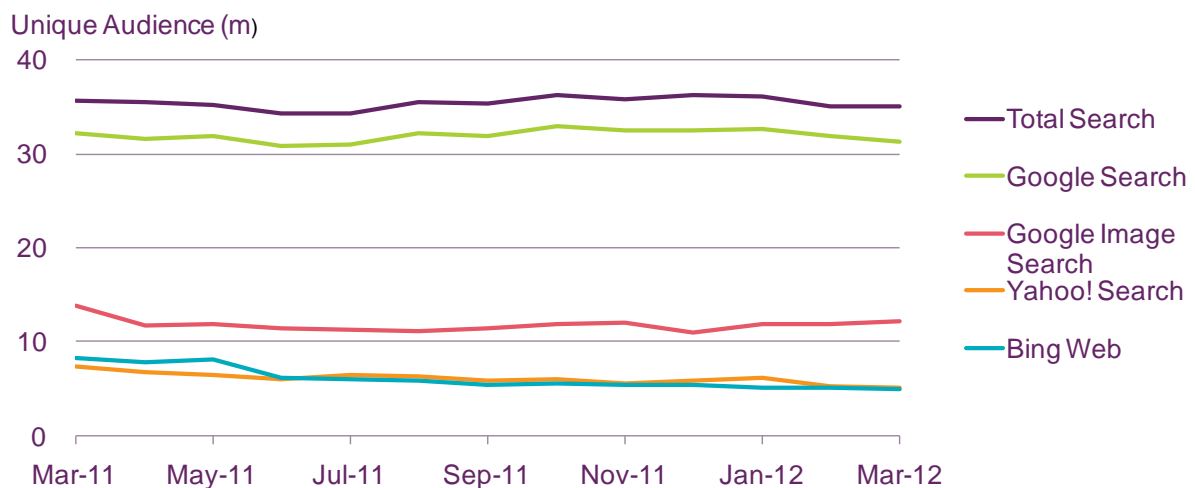
There has been little growth in the unique audiences of search engines on desktop and laptop computers (Figure 4.41). Between March 2011 and March 2012 Google Search remained the most popular search engine in the UK. The average number of unique visitors per month was 31.9 million. In the same period Google's competitor search engines Yahoo! Search (6.1 million unique visitors per month on average) and Bing Web (6.1 million)

attracted less than a fifth as many visitors, while Google Image Search had approximately twice their unique audience (11.9 million).

Yahoo! Search and Bing Web experienced declines in unique audience of 32% (to 5.1 million) and 40% to (4.9 million) respectively between March 2011 and March 2012. Competitor Google's search and image search have not obviously benefitted, with both also declining slightly, by 3% and 12% respectively. Possibly in a bid to mitigate these respective declines, Yahoo! Search has been entirely powered by Bing Web since October 2011 and there is a revenue-sharing deal on search advertising in place between Yahoo! and Microsoft.

The top-level measure of total search reflects the trend, seen across Yahoo!, Bing and Google, of growth apparently levelling off on desktop and laptop computers. This could be due in part to search transferring to mobile devices. In *PC and Mobile UK Internet Trends H2 2011*, Enders Analysis claims that while there are still fewer search engine page views on mobile, the intensity of use is now greater than on desktop and laptop computers. In the UK in December 2011, 5.1 page views per hour were the average on mobile, compared to 4.1 on desktop and laptop computers.<sup>98</sup> However, Figure 4.48 below also suggests that social networking might be beginning to rival search engines in terms of directing web traffic.

**Figure 4.41 Unique audiences of selected search engines on desktop and laptop computers: March 2011 to March 2012**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, March 2011 to March 2012

Note: Unique audience is the total number of unique persons who have visited a website at least once in the specified reporting period. Persons visiting the same website more than once in the reporting period are only counted once.

### The battle between search brands extends from websites to web browsers

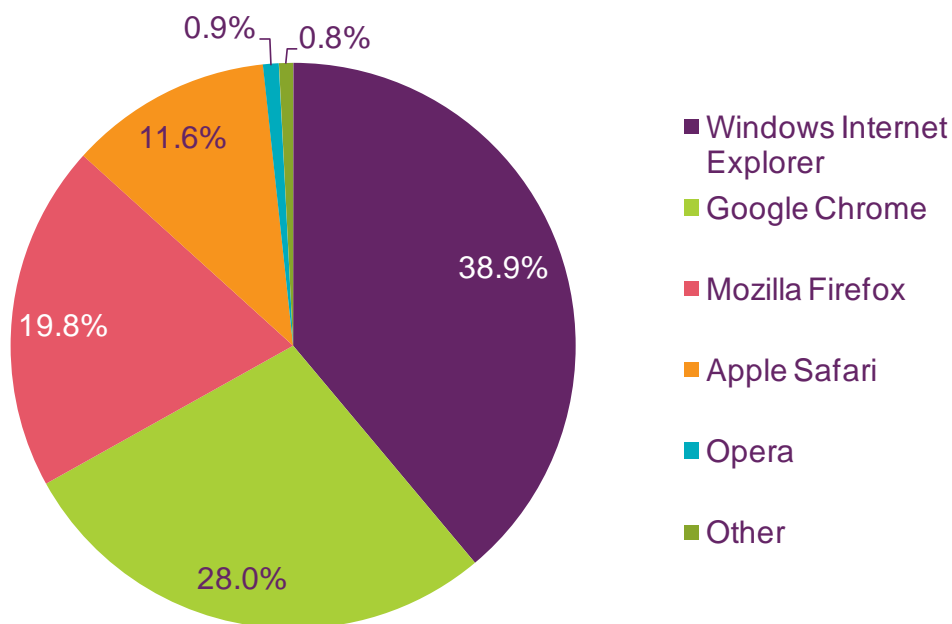
According to data from Statcounter, Microsoft's Windows Internet Explorer was the most popular web browser on desktop and laptop computers in the UK in March 2012 (Figure 4.42). A web browser is installed locally, and provides a point of access to websites, while a search engine is itself a website, which allows users to navigate the rest of the internet. As search engines are often embedded within web browsers, web browsers can contribute to traffic volumes on search engines. This is important, as search advertising was worth £2.8bn

<sup>98</sup> *PC and Mobile UK Internet Trends H2 2011*, Enders Analysis.

in the UK in 2011, according to the Internet Advertising Bureau UK and PricewaterhouseCoopers.<sup>99</sup>

Windows Internet Explorer had a share of 38.9% of total page views in March 2012. As Bing Web is embedded within Windows Internet Explorer, Microsoft's search engine could benefit from the leading position of its web browser. Google Chrome has made significant inroads since its launch in 2008 and now has a 28.0% share of total page views. Furthermore, Google Search is embedded within both Google Chrome and Mozilla Firefox. Google provides the most significant revenue stream for its smaller rival (85% of its total income), in return for securing a platform for its search engine across web browsers.<sup>100</sup> However, a strong position in the browser market does not necessarily entail success in the search market, as it is possible to change the default search engine in either of these web browsers.

**Figure 4.42 Web browsers' shares of total page views on desktop and laptop computers**



Source: StatCounter, month of March 2012

Note: Web browser market shares are based on aggregate data collected from across a global network of more than 3 million websites. StatCounter analyses each hit to its member sites to determine whether or not it came from a mobile device and to establish the browser used. The desktop and laptop computer sample exceeds 872 million page views per month for the UK.

### Device manufacturers take the lead on mobile web browsers

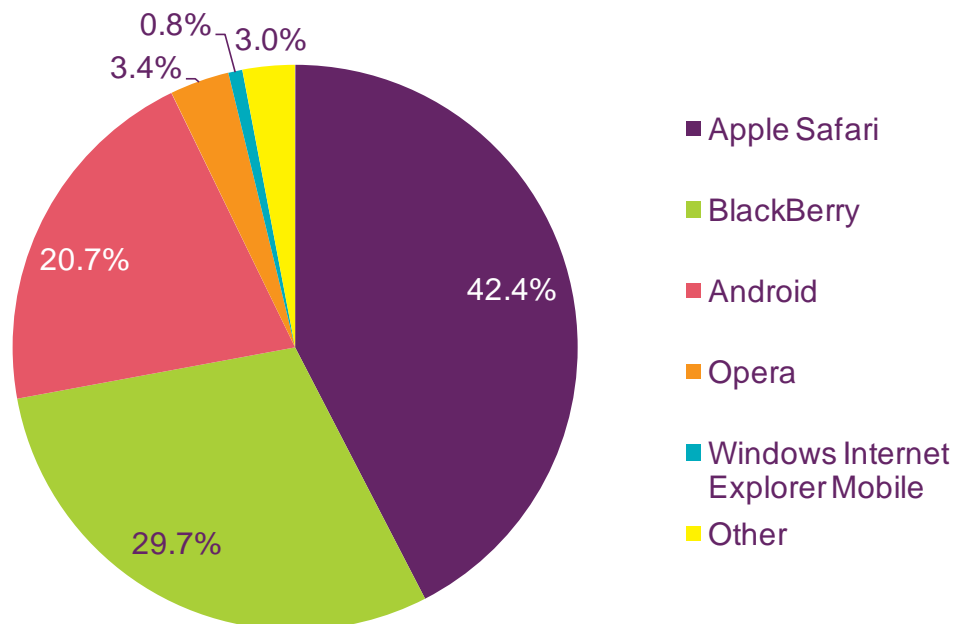
The web browser landscape is markedly different for mobile (Figure 4.43). The major players are device manufacturers like Apple and BlackBerry, and the operating system Android (from the Open Handset Alliance, led by Google). On Apple's iPhone and iPod Touch, Safari Mobile is the default web browser, giving it a market share of 42.4%. This compares to 11.6% for Apple Safari on desktop and laptop computers (Figure 4.42). While Windows Internet Explorer is the most widely-used among desktop and laptop computers, among mobile users it is one of the least-used web browsers (0.8% of page views on a mobile device). This is probably a consequence of its low share of the smartphone market, as sales

<sup>99</sup> <http://www.iabuk.net/about/press/archive/uk-internet-adspend-increases-144-to-48-billion>

<sup>100</sup> <http://www.bbc.co.uk/news/technology-16284196>

of WinMobile/Windows Mobile 7-based handsets indicate.<sup>101</sup> The default search engine on mobile devices is also likely to affect the search advertising revenues of Google and Microsoft (Google Search on Safari, and Bing on BlackBerry), although, as on laptop and desktop computer web browsers, the default search engine can be changed.

**Figure 4.43 Web browsers' shares of total page views on mobile devices**



Source: StatCounter, month of March 2012

Note (1): Web browser market shares are based on aggregate data collected from across a global network of more than 3 million websites. StatCounter analyses each hit to its member sites to determine whether or not it came from a mobile device and to establish the browser and/or operating system used. The mobile sample exceeds 83 million page views per month for the UK.

Note (2): Proportions given should be considered indicative only. BlackBerry and Android-based web browsers are aggregated up to device manufacturer and operating system reporting level.

#### 4.3.4 Social networking

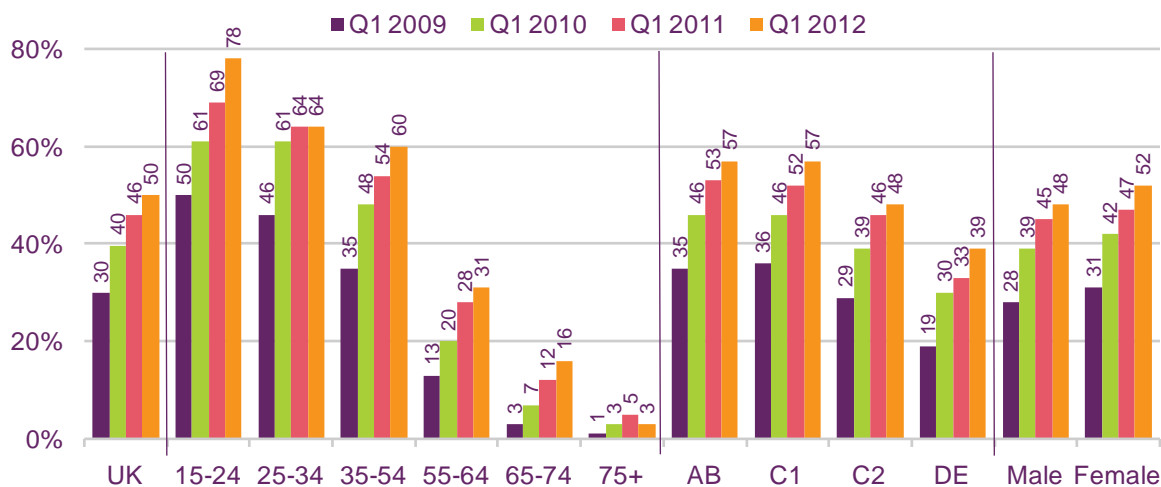
##### Half of UK households use social networking sites

The proportion of UK adults who lived in households which accessed social networking sites stood at 50% in Q1 2012 (Figure 4.44). Access was greatest among younger respondents (78% of those aged 15-24), ABC1 households (57%), and women (52% versus 48% for men).

The growth of social networking has slowed year on year, increasing only 4 percentage points in the year to Q1 2012 compared to 10 percentage points in the year to Q1 2010. Respondents aged 25-34 were no more likely to live in a household which accessed social networking sites between Q1 2011 and Q1 2012, while those aged 75 or over were less likely to have accessed social networking sites in the past year. However, among 15-24 year olds growth of household access to social networking sites appears to remain constant, up 9 percentage points from 69% in the year to Q1 2012.

<sup>101</sup> 2.3% for the twelve weeks ending 22/01/12, Kantar Worldpanel Comtech.

**Figure 4.44 Proportion of adults who live in households where social networking sites are accessed: Q1 2009 to Q1 2012**



QE12: Which, if any, of these do you or members of your household use the internet for while at home?

Source: Ofcom technology tracker, Q1 2012

Base: All adults 16+ (n = 5812 Q1 2008, 1581 Q3 2008, 6090 Q1 2009, 9013 Q1 2010, 3474 Q1 2011, 3772 Q1 2012)

### Nearly two-thirds of the entire online audience in the UK are on Facebook

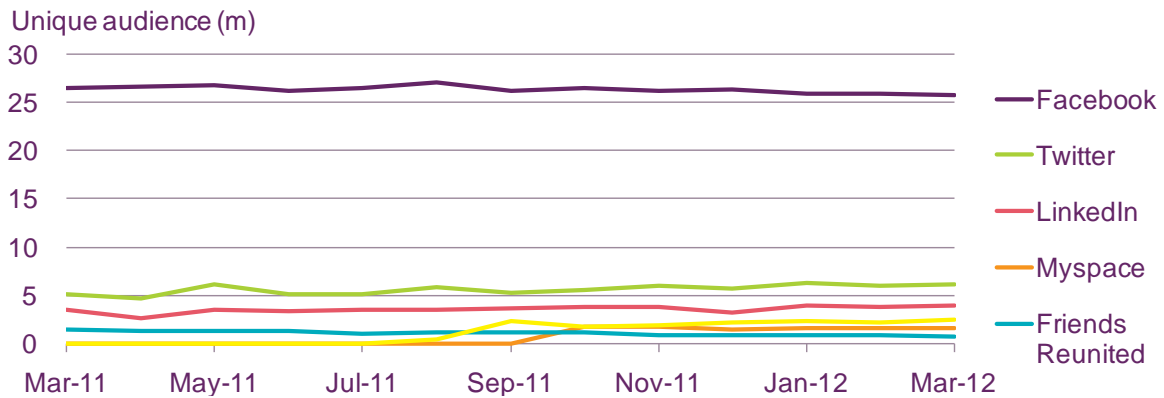
As shown in Figure 4.37, Facebook is the most popular social networking site in the UK, with a unique audience for March 2012 of 25.7 million. In that month, 64% of the entire online audience went on Facebook.<sup>102</sup> Globally, Facebook had 901 million active users by the end of March 2012. That is equivalent to nearly half of the two billion people currently online in the world.<sup>103</sup> Therefore, Facebook's popularity is more concentrated in the UK. Twitter (6.2 million unique visitors per month), LinkedIn (4.0 million), Google+ (2.5 million), Myspace (1.5 million) and Friends Reunited (0.7 million) are much smaller social networking sites in comparison (Figure 4.45).

While Twitter (+24%) and LinkedIn (+14%) both increased their unique audience between March 2011 and March 2012, Friends Reunited (-53%) declined significantly over the same period. Google+, launched in June 2011, had attracted 2.5 million unique visitors by March 2012. However, Facebook might be nearing saturation point, with growth flat on desktop and laptop computers.

<sup>102</sup> Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, month of March 2012. Note: This figure is the unique audience of the site as a proportion as of active internet users for the specified reporting period.

<sup>103</sup> <http://www.sec.gov/Archives/edgar/data/1326801/000119312512208192/d287954ds1a.htm>

**Figure 4.45 Unique audiences of selected social networking sites on desktop and laptop computers: March 2011 to March 2012**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, March 2011 to March 2012

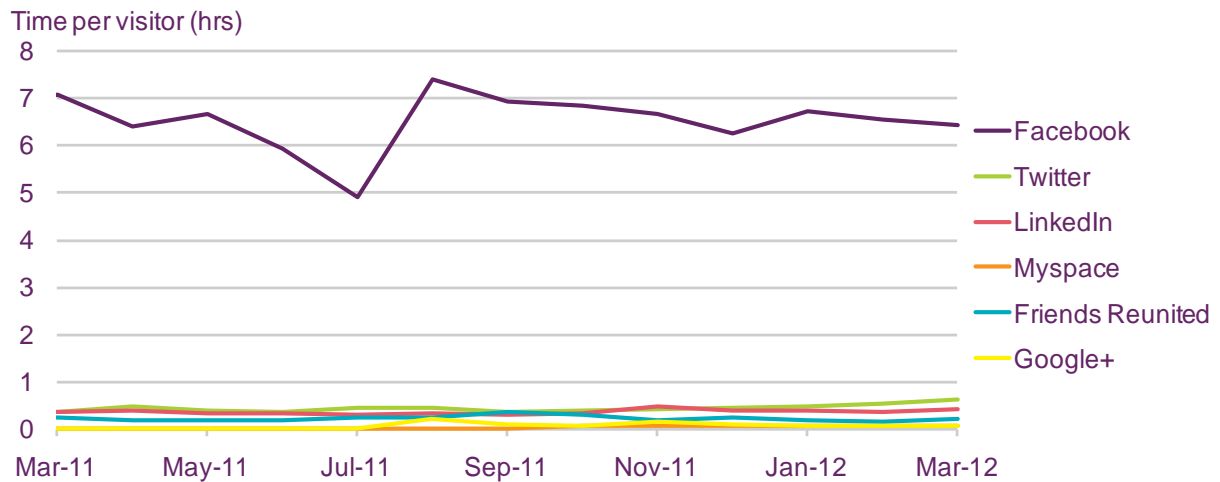
Note: Unique audience is the total number of unique persons who have visited a website at least once in the specified reporting period. Persons visiting the same website more than once in the reporting period are only counted once.

### Facebook users spend an average of six and a half hours per month on the site

Users of Facebook spend more time on the site than users of any other social network (Figure 4.46). Each user averaged six and a half hours per visitor per month between March 2011 and March 2012. While there have been fluctuations in the level of user engagement, Facebook has not declined significantly on this measure since last year. Furthermore, Figure 4.46 does not take account of time spent social networking via mobile devices. According to ComScore's *Connected Europe: How Smartphones and Tablets are Shifting Media Consumption*, Facebook had an active reach of 41.6% among UK mobile browser users in October 2011.<sup>104</sup> This could explain the plateau in use on desktop and laptop computers (Figure 4.45).

<sup>104</sup> *Connected Europe: How Smartphones and Tablets are Shifting Media Consumption*, ComScore, January 2012.

**Figure 4.46 Time spent, per visitor per month, on selected social networking sites, on desktop and laptop computers: March 2011 to March 2012**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, March 2011 to March 2012

Note: Time per visitor is the total time spent on the website divided by its unique audience.

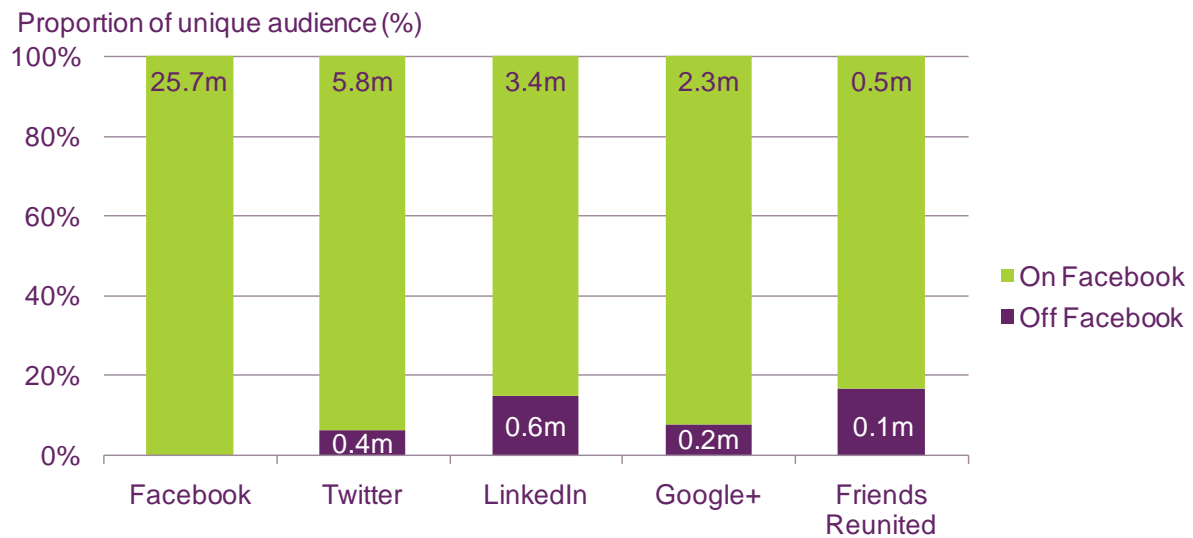
### Facebook is the most significant player, but other social networks perform different functions

The overwhelming majority of users of other social networking sites also appear to have an account with Facebook (Figure 4.47). According to Wiggin’s 2011 *Digital Entertainment Survey*, 51% of social network users agreed with the statement: “I would prefer one social network enabling me to do everything.”<sup>105</sup> However, Figure 4.47 also shows the proportion of the unique audience of each social network which is not on Facebook. This suggests that social networks might perform different functions adapted to particular niches, despite the attitudes highlighted by Wiggin.

Twitter (6.6% of its unique audience is unduplicated) offers non-reciprocal friendship links, so that members can follow celebrities and entities such as football teams. Google+ (9.1% unduplicated) facilitates group video chats, probably its most distinctive feature. LinkedIn (14.8% unduplicated) and Friends Reunited (13.9% unduplicated) both have explicitly specialised target audiences, whether that is professional communities or those with an interest in nostalgia and genealogy. Nevertheless, Facebook remains the most significant player, as the numbers that only use these other social networking sites are still extremely small.

<sup>105</sup> 2011 *Digital Entertainment Survey*, Wiggin/Entertainment Media Research.

**Figure 4.47 Overlapping and unduplicated audiences of selected social networking sites on desktop and laptop computers**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, month of March 2012

Note (1): Overlapping audience is the unique audience of a site which also visited a second designated site in the specified reporting period.

Note (2): Unduplicated audience is the unique audience of a site which did not visit a second designated site in the specified reporting period.

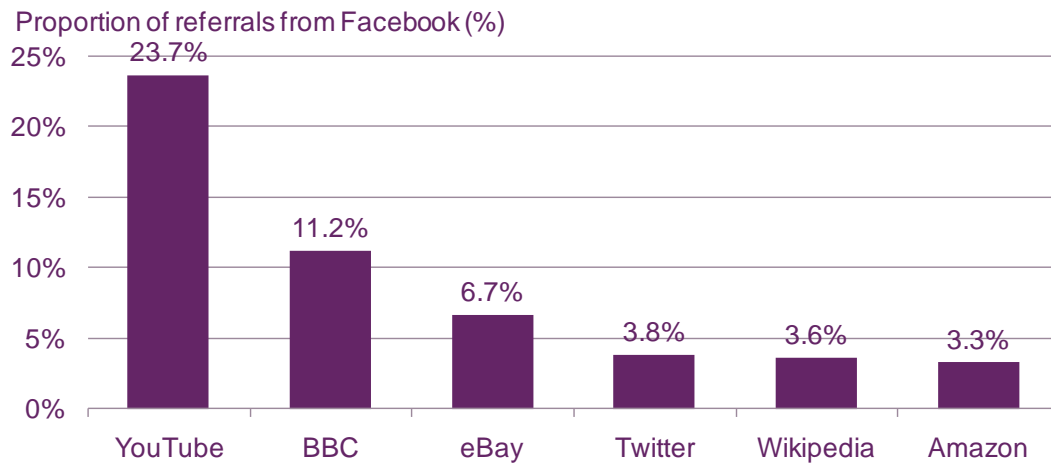
### Facebook is a major driver of web traffic to some of the leading sites in the UK

Users of Facebook often post links to other sites. The extraordinary reach of the social network means that this practice can have considerable impact, potentially rivalling search engines in terms of directing web traffic. Figure 4.48 ranks sites by the proportion of referrals to them which originate on Facebook. YouTube in particular scores highly, with almost a quarter (23.7%) of referred traffic to the video-sharing site coming from this source in March 2012. In comparison, 32.3% of referrals to YouTube were from Google Search.<sup>106</sup> The BBC (11.2%), eBay (6.7%), Twitter (3.8%), Wikipedia (3.6%) and Amazon (3.3%) also received a large number of referrals from Facebook, which demonstrates its influence across the web, as well as indicating the kinds of content which are commonly shared on social networking sites. These include video clips, news and information, and products on online shopping sites.

<sup>106</sup> Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, month of March 2012. Note: Referred traffic is the unique visitors to a site that were referred through a link from a specified source.



**Figure 4.48 Selected sites ranked by proportion of referred traffic generated through referrals from Facebook**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, month of March 2012

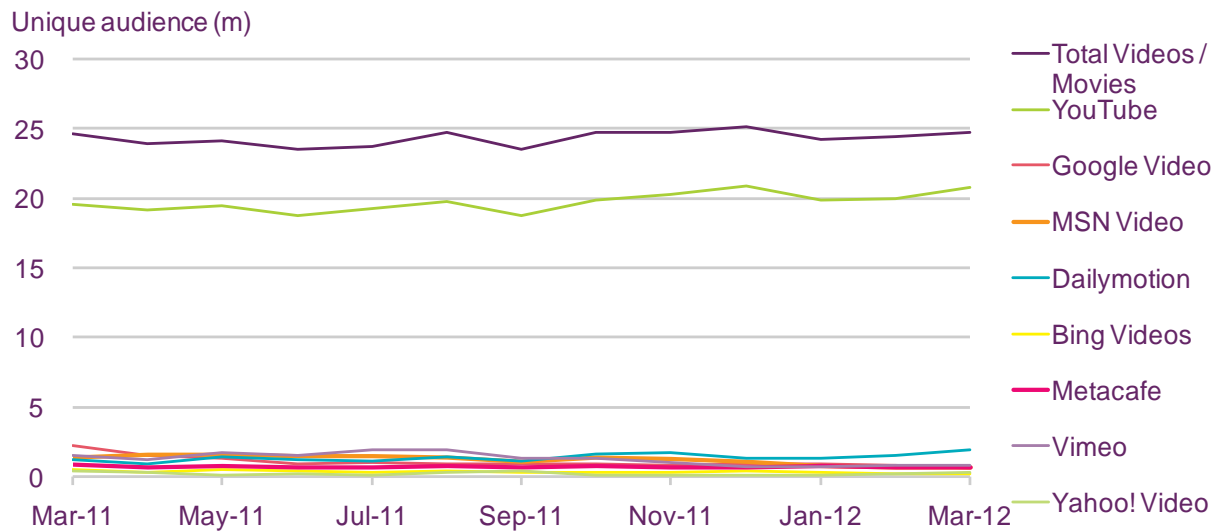
Note: Referred traffic is the unique visitors to a site that were referred through a link from a specified source.

#### **4.3.5 Online video**

##### **YouTube remains the most popular video-sharing site, although its audience has not increased significantly on desktop and laptop computers**

Google's YouTube is the most significant player among video-sharing sites, averaging 19.8 million unique visitors per month between March 2011 and March 2012 (Figure 4.49). This is far more than either of its closest competitors Dailymotion (1.4 million unique visitors per month on average) and Microsoft's MSN Video (1.2 million). While Dailymotion grew its unique audience by 51% from 1.3 million to 1.9 million, MSN Video declined by 51%; from 1.4 million to 0.7 million. Google Video, Google's legacy offering, decreased by 73% from 2.2 million unique visitors in March 2011 to 0.6 million unique visitors in March 2012. YouTube maintained a fairly stable audience size throughout the same period, and the overall total for videos and movies shows no change since last year.

**Figure 4.49 Unique audiences of selected video-sharing sites on desktop and laptop computers: March 2011 to March 2012**



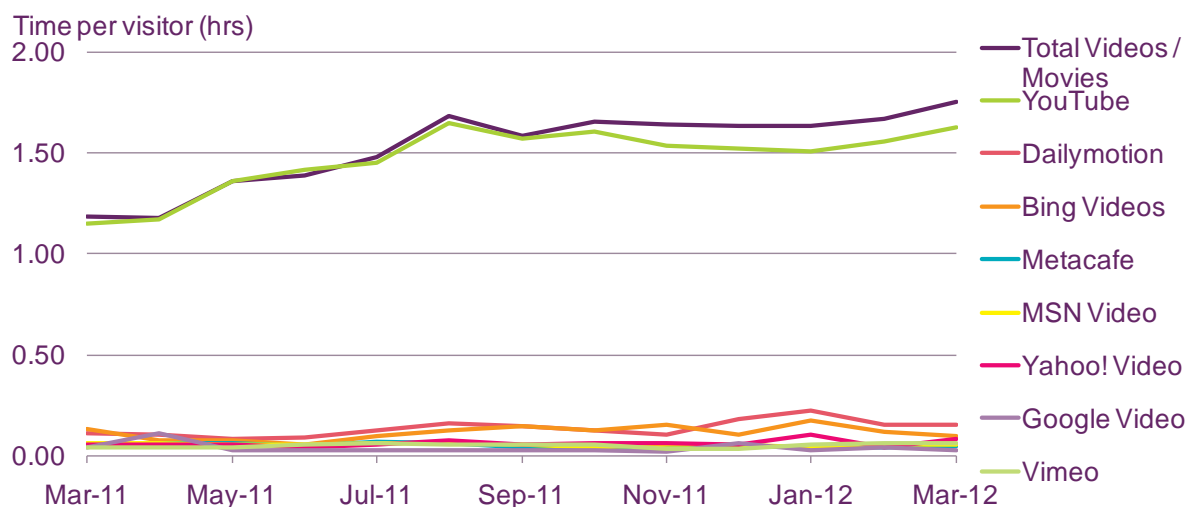
Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, March 2011 to March 2012

Note: Unique audience is the total number of unique persons who have visited a website at least once in the specified reporting period. Persons visiting the same website more than once in the reporting period are only counted once.

### Users are spending longer on video-sharing sites

The average time per visitor per month spent on a video-sharing site between March 2011 and March 2012 was 1.52 hours (Figure 4.50). Although the number of unique visitors to these sites did not increase over this period, users are spending longer watching videos online. Time per visitor per month for all video-sharing sites rose by 43%; from 1.19 hours in March 2011 to 1.70 hours in March 2012. On the same measure, YouTube increased by 39%. Yahoo! Video (+20%) and Microsoft's Bing Videos (+15%) both saw users spending longer on their sites, although in the latter case this merely compensated for a similar decrease in time per visitor per month for MSN Video (-17%). Likewise, Google Video (-50%) declined by half, as the company continued to shift its emphasis to promoting YouTube. In December 2010, YouTube removed length limits on its videos, and started hosting more long-form content such as television programmes, which might also have contributed to the increase in viewing time.

**Figure 4.50 Time spent, per visitor per month, on selected video-sharing sites, on desktop and laptop computers: March 2011 to March 2012**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, applications included, March 2011 to March 2012

Note: Time per visitor is the total time spent on the website divided by its unique audience.

### YouTube is also the leading platform for online videos, by volume of content consumed

YouTube accounts for over twenty times more videos watched online than the next largest platform for such content (Figure 4.51). VEVO, Perform Sports and the BBC sites combined make up less than a tenth of its total. VEVO is a music video site, with content syndicated on YouTube, sharing advertising revenue with Google. Perform Sports specialises in sports videos, covering a range of leagues, tournaments and events. BBC Sites include both short-form news videos on BBC News and long-form entertainment videos on BBC iPlayer.

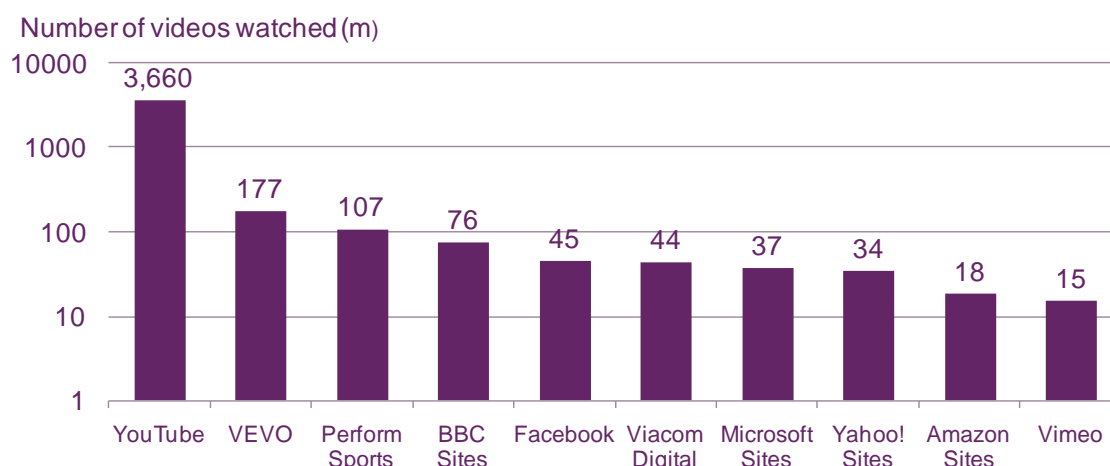
BBC iPlayer remains the most popular platform for online viewing of catch-up TV (see section 2.3.9). LoveFilm, included here under Amazon sites, has seen significant growth in the past year, as users access more over-the-top content (see section 2.3.10). While both of these sites concentrate on long-form content such as television programmes and feature films, Figure 4.51 quantifies the popularity of the various platforms in terms of the numbers of videos watched, without considering time spent.

Wiggin's 2011 *Digital Entertainment Survey* reveals that the most popular categories of videos watched online at least once a week were news (36% of respondents), music (33% of respondents), film (25% of respondents), comedy (24% of respondents) and sport (24% of respondents).<sup>107</sup> YouTube has the advantage of cutting across these themes, with deals in place to host some pay-per-view films, as well as catch-up and archive content from providers such as 4OD and Demand5, and news clips from organisations like the BBC and ITN. YouTube also has an enormous store of user-generated content, and claims that sixty hours of video is uploaded to its site every minute.<sup>108</sup>

<sup>107</sup> 2011 *Digital Entertainment Survey*, Wiggin/Entertainment Media Research.

<sup>108</sup> [http://www.youtube.com/t/press\\_statistics](http://www.youtube.com/t/press_statistics)

**Figure 4.51 Top platforms for video content, by number of videos watched**

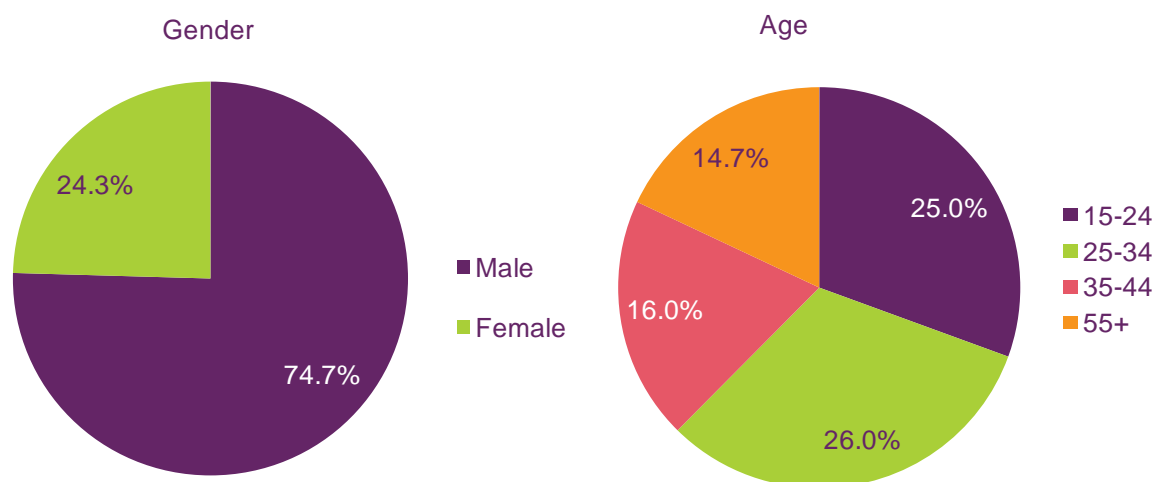


Source: ComScore Video Metrix, month of January 2012

### Men spend three times as much time as women watching videos online

Online video sites are most popular with men and younger age groups (Figure 4.52). In January 2012 almost three-quarters of video content, by proportion of total time spent by all visitors, was consumed by men (74.7%), while more than half was consumed by those aged 15–34 (51.0%).

**Figure 4.52 Total time spent watching videos online, split by gender and age**



Source: ComScore Video Metrix, month of January 2012

### 4.3.6 Online shopping

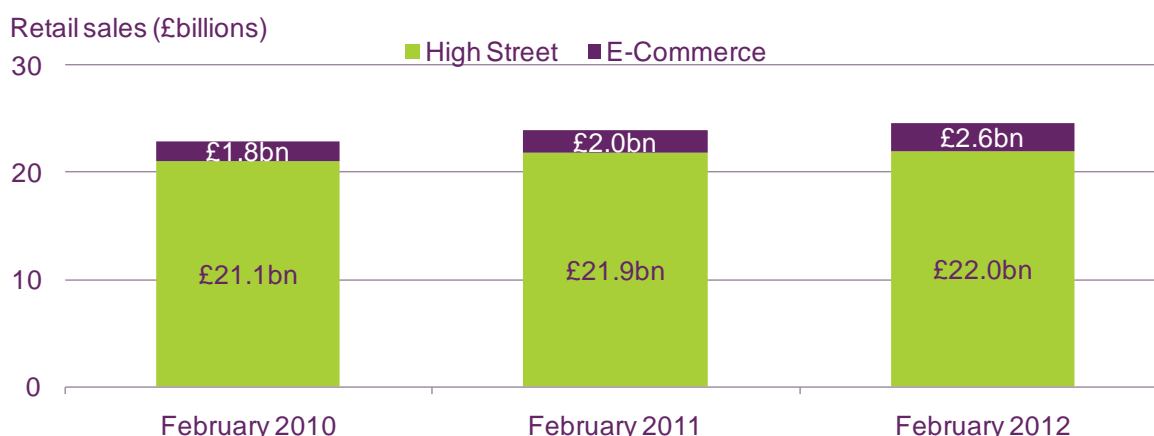
#### Online shopping increasing despite poor economic conditions

Retail sales transacted online were worth £2.6bn for the month of February 2012, growing from £2bn in February 2011 (Figure 4.53). Online shopping still only represents 11% of all retail revenue in a market that was worth £24.6bn in February 2012. Nevertheless, it has been the source of the majority of growth, up by £0.6bn, while high street sales grew by just £0.1bn in the same period. In the past three years e-commerce has grown at ten times the rate of retail sales on the high street, increasing by 44% between February 2010 and

February 2012. This compares to a 4% increase in the value of retail sales on the high street.

Growing consumer confidence in online shopping among late internet adopters is likely to be a contributory factor in the accelerating growth of online shopping revenue. Figure 4.38 demonstrates the popularity of online shopping websites such as Amazon and eBay among those aged 50-64 and 65+, while consumer research from Deloitte shows an increase of 70% between 2010 and 2011 of those aged 55+ who reviewed a product online.<sup>109</sup> Furthermore, reduced disposable incomes in poor economic conditions is likely to drive consumers to online retailers, who benefit from lower fixed costs and can undercut high street prices.

**Figure 4.53 UK retail sales, split by e-commerce and high street: February 2010, February 2011 and February 2012**



Source: Office of National Statistics, Retail Sales Statistical Bulletin, February 2010, February 2011 and February 2012

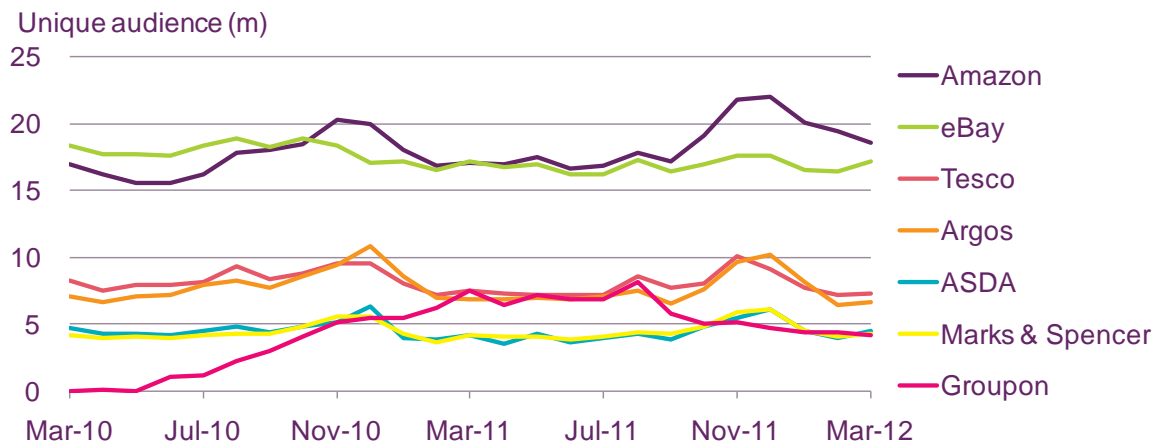
Note: Adapted from data from the Office of National Statistics licensed under the Open Government Licence v.1.0. These figures are not adjusted for inflation. Retail sales excludes automotive fuel.

### Amazon continues to grow, while Groupon’s audience has fallen

Between March 2011 and March 2012, Amazon (18.5 million unique visitors per month on average) and eBay (16.8 million), which are online-only retailers, had greater unique audiences on desktop and laptop computers than brands with a high street presence like Tesco (7.9 million) and Argos (7.4 million) (Figure 4.54). Over the full two-year period, shown in Figure 4.54, Amazon’s unique audience grew by 9%, from 16.9 million unique visitors in March 2010 to 18.5 million in March 2012. Groupon was the highest-ranking new entrant to the market, but there are signs that interest in the group-buying site is now receding. Groupon launched in the UK in January 2010 and reached a peak unique audience of 8.1 million in August 2011. This has since declined by 3.9 million (48%), to 4.2 million in March 2012.

<sup>109</sup> 2011 State of the Media Democracy Report, Deloitte.

**Figure 4.54 Unique audiences of leading shopping sites on desktop and laptop computers: March 2010 to March 2012**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, March 2010 to March 2012

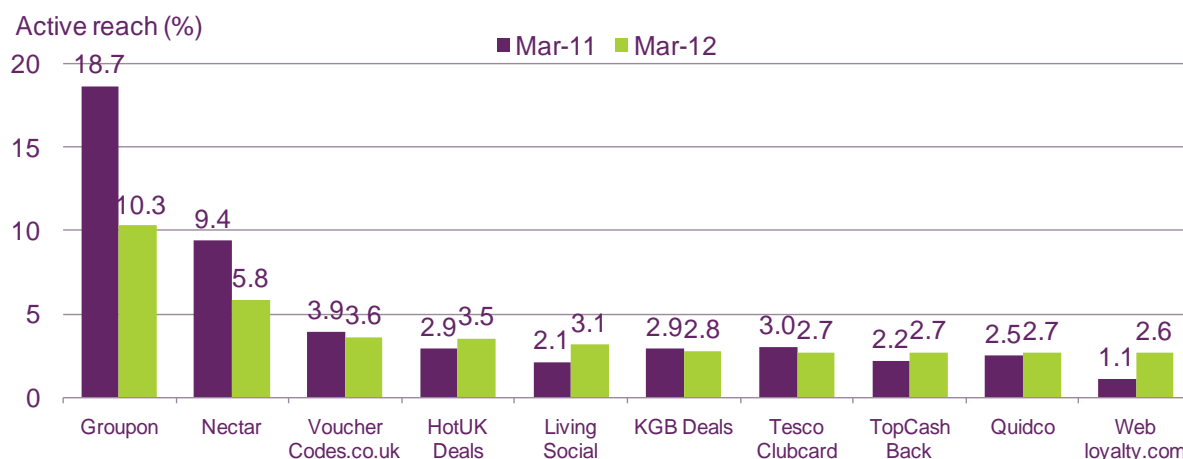
Note: Unique audience is the total number of unique persons who have visited a website at least once in the specified reporting period. Persons visiting the same website more than once in the reporting period are only counted once.

### Interest in coupons and rewards sites appears to be waning

There are several group buying sites other than Groupon, as well as a number of voucher aggregation and cashback or loyalty schemes (Figure 4.55). In March 2012, Groupon was visited by a tenth of the active online population on desktop and laptop computers (10.3%). This confirms its position as the leading site in the sector. Nectar, the second-ranked site, had a reach over half that of Groupon (5.8%). A number of sites had a smaller presence, such as VoucherCodes.co.uk (3.9%), HotUKDeals (2.9%) and LivingSocial (2.1%).

Compared to March 2011, Groupon's active reach decreased by 8.4pp, from 18.7%, while Nectar's decreased by 3.6pp, from 9.4%. The picture among the smaller coupons and rewards sites was more mixed, with slight increases for HotUKDeals, LivingSocial, TopCashBack, Quidco and Webloyalty.com. Nevertheless, VoucherCodes.co.uk, KGB Deals and Tesco Clubcard all experienced declines in their active reach, in line with the general trend of waning interest in coupons and rewards sites.

**Figure 4.55 Most popular coupons and rewards sites on desktop and laptop computers, by active reach: March 2011 and March 2012**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, month of March 2012

Note: Active reach is the percentage of all active 2+ persons who accessed the website within the specified reporting period. Active is defined as anyone who used an internet-enabled computer within the specified reporting period.

### 4.3.7 News

#### BBC News is the most popular news site among UK internet users

According to research commissioned by Ofcom and conducted by Kantar Media, TV is the most popular platform for news in the UK. While 85% of the population access news through this medium, 53% use the radio and 53% use newspapers. In comparison, 41% of the population go online to access news.<sup>110</sup>

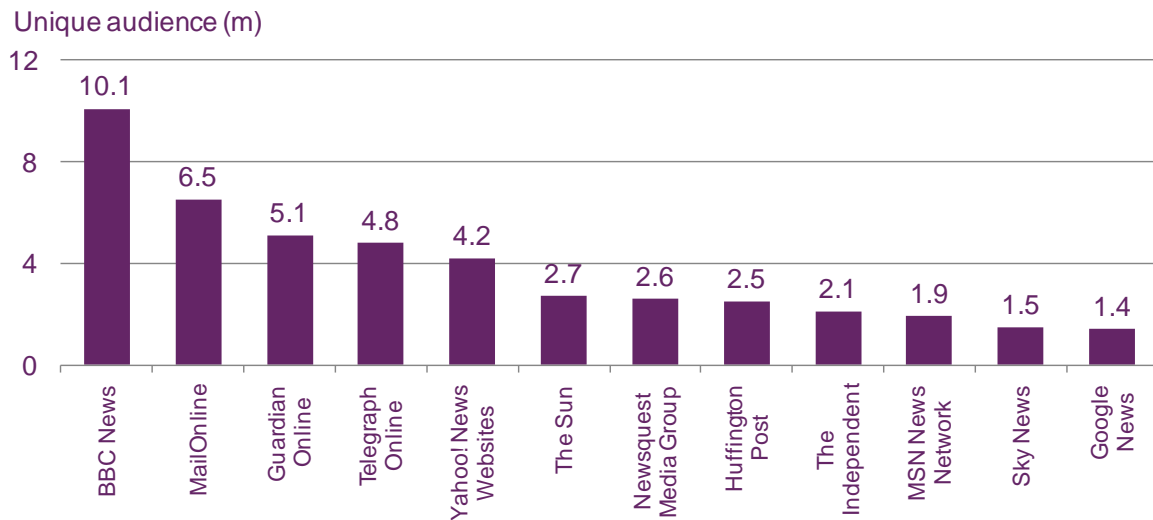
As shown in Figure 4.37, BBC News is the most popular source of news on the web in the UK. In March 2012, 10.1 million unique visitors accessed the site on desktop and laptop computers. According to Figure 4.56, MailOnline (6.5 million unique visitors), Guardian Online (5.1 million) and Telegraph Online (4.8 million) had the next largest audiences, followed by Yahoo! News websites (4.2 million).

This illustrates the main types of platforms for accessing news on the internet in the UK. There are websites from broadcasters like the BBC and Sky. Newspapers like *The Daily Mail*, *The Guardian* and *The Telegraph* publish online versions. There are also news services from search brands Yahoo!, Microsoft and Google. These sites are limited to news aggregation, without the investment in reporting of broadcasters and newspapers. Finally, AOL's Huffington Post is an online-only publication which does commission original journalism, and won a Pulitzer Prize in April 2012.<sup>111</sup> Since its launch in the UK in May 2011, the Huffington Post has attracted an audience of 2.5 million unique visitors per month.

<sup>110</sup> *Measuring Media Plurality*, Ofcom.

<sup>111</sup> <http://www.guardian.co.uk/culture/us-news-blog/2012/apr/16/pulitzer-prize-2012-winners-list>

**Figure 4.56 Most popular news sites on desktop and laptop computers in the UK**



Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, month of March 2012

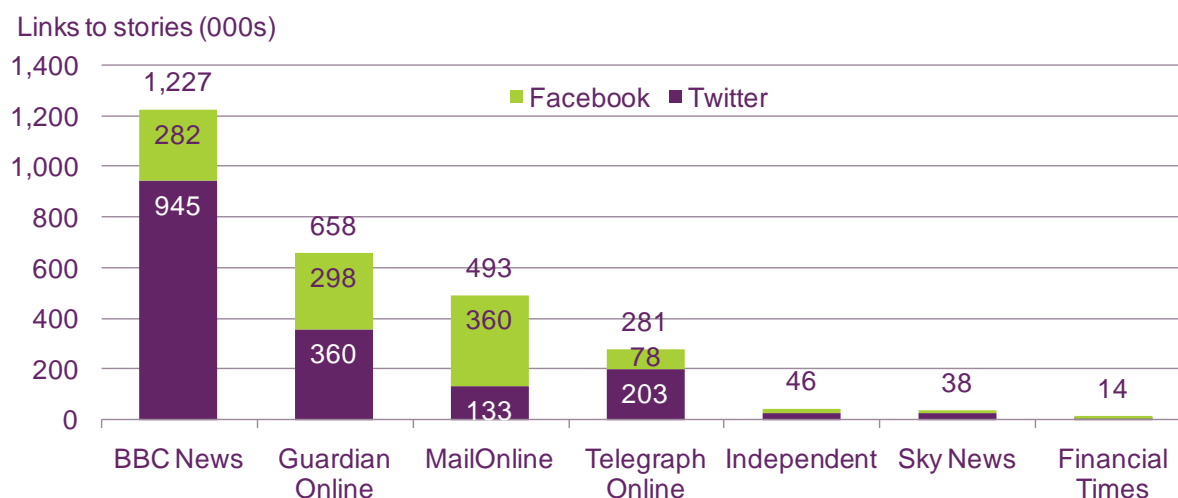
Note: Unique audience is the total number of unique persons who have visited a website at least once in the specified reporting period. Persons visiting the same website or using the same application more than once in the reporting period are only counted once.

### **BBC News stories are shared most often on the leading social networks**

BBC News also generated the most interest on Facebook and Twitter in March 2012 (Figure 4.57). According to data from Rippla, 1,227 links to stories from the news site were posted on these social networks, which is more than the combined total of its closest competitors Guardian Online (658) and MailOnline (493). While 77% of BBC News and 55% of Guardian Online stories shared were linked to on Facebook, MailOnline had the majority of its social network exposure on Twitter (73%).



**Figure 4.57** Number of stories from selected news sites shared on Facebook and Twitter



Source: Rippla, month of March 2012

Note (1): The stories included are restricted to the categories News, Politics, Opinion and Business/Economy.

Note (2): The number of times stories are shared includes links posted outside the UK on Facebook and Twitter.

### Declining circulation of print newspapers occurs alongside shift in emphasis to online versions

In March 2012, *The Daily Mail*, *The Guardian*, *The Telegraph*, *The Sun*, *The Independent*, *The Times* and *The Financial Times* all reported year-on-year decreases in headline circulation, which includes subscriptions, overseas distribution and bulk sales. In the same period there were increases in the unique audiences of MailOnline ([www.dailymail.co.uk](http://www.dailymail.co.uk)), Guardian Online ([www.guardian.co.uk](http://www.guardian.co.uk)), Telegraph Online ([www.telegraph.co.uk](http://www.telegraph.co.uk)) and the website of *The Sun* ([www.thesun.co.uk](http://www.thesun.co.uk)). While audiences of *The Independent's* website ([www.independent.co.uk](http://www.independent.co.uk)) showed no change, the online versions of *The Times* ([www.thetimes.co.uk](http://www.thetimes.co.uk)) and *The Financial Times* ([www.ft.com](http://www.ft.com)) both experienced double digit declines (Figure 4.58).

The general trend is falling engagement with print formats. *The Independent* saw the greatest decrease (44.7%), which might be attributed in part to the launch of its sister title *i* in October 2010. In March 2012, *i* had a headline circulation of 273,793, compared to 100,672 for *The Independent*.<sup>112</sup> *The Independent* has also cut back on bulk sales and overseas distribution, adversely affecting its headline circulation. *The Financial Times* and *The Guardian* experienced reductions of a broadly similar magnitude (16.8% and 16.3% respectively), while these titles have increasingly focused on expanding their online presence, through the promotion of mobile and tablet versions. According to figures released by *The Financial Times*, 20% of its online page views were on mobile in 2011.<sup>113</sup> Guardian News and Media launched a free application for the iPad in October 2011, and the publisher claimed over 500,000 downloads by January 2012.<sup>114</sup> After this trial offer expired, the price increased to £10 per month.

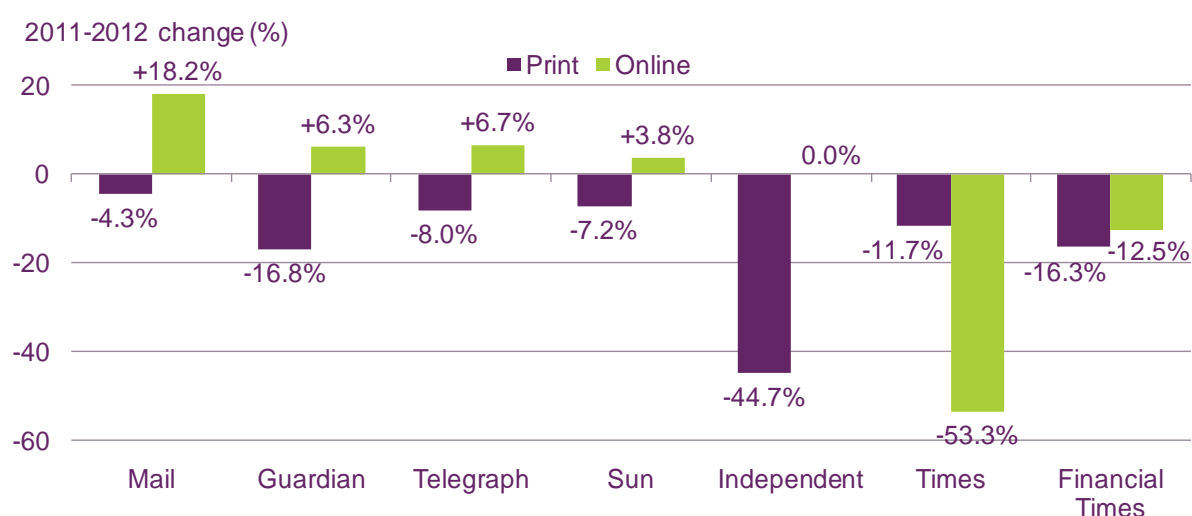
<sup>112</sup> Audit Bureau of Circulations, March 2012.

<sup>113</sup> <http://aboutus.ft.com/2011/11/18/ft-web-app-registers-one-million-users/#axzz1vsU6dBcL>

<sup>114</sup> <http://www.guardian.co.uk/technology/appsblog/2012/jan/06/guardian-ipad-app-downloads>

Research by Enders Analysis claims that newspaper publishers have expanded their reach and increased the share of the total time spent reading news and information online, from 15% in Q4 2010 to 35% in Q4 2011.<sup>115</sup> Figure 4.58 demonstrates the shift in consumption between web-based and print formats, and the varying degrees of success with which publishers have managed to substitute audiences. It is important to stress that the platforms are not necessarily substitutional, and indeed might be considered complementary. The majority of these sites allow users to access content free of charge, generating revenue principally through display advertising and added-value services, such as applications for tablets. However, *The Times* and *The Financial Times* have both adopted paid-for models of online newspaper content consumption, and the relative success of different titles cannot be evaluated entirely in terms of their unique audiences.

**Figure 4.58 Year-on-year changes in headline circulation of print versions and unique audiences of online versions of selected newspapers: March 2011 and March 2012**



Source (1): Audit Bureau of Circulations, March 2011 and March 2012

Source (2): UKOM/Nielsen home and work panel, desktop and laptop computers only, March 2011 and March 2012

Note (1): Headline circulation includes subscriptions, overseas distribution and bulk sales to airlines, railways, hotels and gyms.

Note (2): Unique audience is the total number of unique persons who have visited a website at least once in the specified reporting period. Persons visiting the same website more than once in the reporting period are only counted once.

### Users access multiple sources of news online

Figure 4.59 illustrates how consumers often access multiple sources of news, showing the varying degrees of overlap between the unique audiences of different sites on desktop and laptop computers. BBC News saw the greatest amount of crossover from the audiences of other sites, reflecting its status as the most popular source of news online, and perhaps also its reputation as a provider of free, high quality public service content. Users of [www.independent.co.uk](http://www.independent.co.uk) (64.2% of its audience overlapped with BBC News), Guardian Online (63.0%) and Telegraph Online (60.9%) were particularly likely to also visit BBC News. As noted above, [www.thetimes.co.uk](http://www.thetimes.co.uk) charges for access to its content (an explanation for its uniformly low levels of overlap, alongside the impact of its comparatively small unique audience). While 63.7% of its audience also visited BBC News, BBC News' overlap with [www.thetimes.co.uk](http://www.thetimes.co.uk) was just 4.6%.

<sup>115</sup> PC and Mobile UK Internet Trends H2 2011, Enders Analysis.

In general, there was a high level of overlap between different sources of news online; perhaps surprisingly, in the case of titles which have traditionally adopted opposing political views, such as the [www.independent.co.uk](http://www.independent.co.uk) and MailOnline (53.9% overlapping) and [www.thesun.co.uk](http://www.thesun.co.uk) and Guardian Online (39.1% overlapping). The internet offers consumers greater choice, including much content available for free, and ease of moving between publications in the absence of a physical newspaper, which might encourage the practice of accessing multiple sources of news.

**Figure 4.59** Overlapping audiences of selected news sites on desktop and laptop computers

	BBC News 10.1m	Mail 6.5m	Guardian 5.1m	Telegraph 4.8m	Sun 2.7m	Independent 2.1m	Times 0.7m
Overlap with BBC News		56.5%	63.0%	60.9%	55.3%	64.2%	63.7%
Overlap with Mail	36.3%		47.7%	52.3%	54.6%	53.9%	53.6%
Overlap with Guardian	32.1%	37.7%		48.5%	39.1%	58.7%	55.6%
Overlap with Telegraph	28.7%	38.4%	45.0%		37.8%	52.6%	54.7%
Overlap with Sun	14.9%	22.9%	20.7%	21.6%		24.5%	29.2%
Overlap with Independent	13.3%	17.4%	23.9%	23.1%	18.8%		34.2%
Overlap with Times	4.6%	6.0%	7.8%	8.3%	7.8%	11.8%	

■ 0-15%  
 ■ 16-30%  
 ■ 31-45%  
 ■ 46-60%  
 ■ 60-75%

Source: UKOM/Nielsen home and work panel, desktop and laptop computers only, month of March 2012

Note (1): Unique audience is the total number of unique persons who have visited a website at least once in the specified reporting period. Persons visiting the same website more than once in the reporting period are only counted once.

Note (2): Overlapping audience is the proportion of the unique audience of a site which also visited a second designated site in the specified reporting period.



# The Communications Market 2012

## 5 Telecoms and Networks

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# 5.1 Key market developments in telecoms

## 5.1.1 Industry metrics and summary

Figure 5.1 UK telecoms industry: key statistics

	2006	2007	2008	2009	2010	2011
Total operator-reported revenue (£bn)	40.7	42.0	42.5	41.2	40.5	39.7
Operator-reported retail revenue (£bn)	30.6	31.7	32.0	31.1	30.9	31.0
Operator-reported wholesale revenue (£bn)	10.1	10.3	10.4	10.1	9.6	8.8
Average monthly household telecoms spend (£ 2011 prices)	78.46	76.00	73.04	70.81	68.06	65.04
Fixed access and call revenues (£bn)	10.5	10.4	10.2	9.7	9.4	8.9
Fixed voice call minutes (billions)	154	149	141	132	129	116
BT share of fixed call minutes (%)	47.1	46.6	43.8	40.1	36.5	35.9
Fixed lines (millions)	34.5	34.5	34.2	33.5	33.4	33.2
Fixed internet revenues (£bn)	3.2	3.2	3.2	3.3	3.2	3.4
Fixed internet connections per 100 population	28.0	29.3	29.5	30.3	32.1	33.2
Fixed broadband connections per 100 population	21.3	24.9	27.4	28.7	30.6	32.5
Proportion of premises connected to an unbundled exchange (%)	66.6	80.2	84.2	84.5	89.0	91.9
Mobile retail revenues (£bn)	13.9	15.0	15.5	14.9	14.9	15.1
Mobile voice call minutes (billions)	88	105	115	121	125	124
Active mobile connections per 100 population	114.7	120.1	123.8	129.1	129.8	129.8

Source: Ofcom / operators

Total UK telecoms revenues declined for the third successive year in 2011, falling by £0.8bn (1.9%) to £39.7bn (Figure 5.1). Retail revenues increased by £0.1bn to £31.0bn during the year as a £0.2bn increase in fixed internet revenues (as a result of increasing broadband take-up and slowing price decreases), a similar increase in corporate data service revenues and a £0.1bn increase in retail revenues from mobile voice and data services were offset by a £0.5bn fall in fixed call and access revenues. Operator-reported wholesale revenues fell by £0.9bn (8.9%) in 2011.

Both fixed and mobile voice call volumes fell in 2011, this being the first year that mobile-originating voice call volumes had fallen. The rate of decline in mobile voice call volumes was lower than that for fixed voice call volumes; and as a result more than half of voice telephony call minutes originated on mobile networks for the first time during 2011. Section 5.1.4 below considers these shifts in more detail, along with the main drivers behind them.

The total number of mobile connections continued to increase in 2011, albeit by just 0.5% to 81.6 million, although population growth meant that the number of active connections per 100 people was unchanged at 129.8. The decline in the total number of fixed voice lines continued in 2011, down by 0.5% to 33.2 million; although, for the first time in a decade, the number of residential lines increased during the year. This increase may be linked to increasing broadband take-up, as most UK homes need a fixed line in order to be able to access fixed broadband services. However, as household fixed broadband penetration is

already high, at 72%, it is unclear whether this trend will be sustained. Average monthly household spend on telecoms services fell to £65.04 in 2011, a £3.02 a month (4.4%) fall in real terms.

The following two sections look at the telecoms sector from an industry and then from a consumer perspective. In this section we look at four market developments that are shaping the future of the industry and changing consumer behaviour. These are:

- **Availability and take-up of superfast fixed broadband services increased in 2011.** We look at the availability of fibre-to-the-cabinet and cable superfast broadband services and how take-up is increasing as use of bandwidth-hungry online services and the number of connected devices per household grows.
- **Changing patterns of mobile data use.** This key market development examines changing usage patterns regarding devices and tariffs, and examines the growth in mobile data.
- **Both fixed and mobile-originated voice call volumes fell for the first time in 2011.** We look at the main drivers behind falling voice telephony use and consider the issues posed for telecoms providers by the shift away from traditional voice services.
- **Mobile coverage investment.** This key market development describes the context around the government's announcement that it will invest up to £150m in improving mobile coverage for unserved areas and roads.

### 5.1.2 Fibre-to-the-cabinet roll-out, and take-up of superfast services, start to gain momentum

#### BT announces that fibre broadband target will be met a year earlier than planned

BT's roll-out of fibre broadband services gained momentum in 2011, and in October 2011 it announced that its goal of availability to two-thirds of UK premises would be achieved by the end of 2014, one year sooner than originally planned.<sup>116</sup> BT intends to achieve this goal using a mixture of fibre-to-the-cabinet (FTTC) and fibre-to-the-premises (FTTP) technologies. FTTC will be the predominant technology in the mix as it is significantly cheaper to deploy than FTTP (as fibre-optic cable is not laid from the street cabinet to the end user's premises), although it offers lower maximum connection speeds than FTTP.

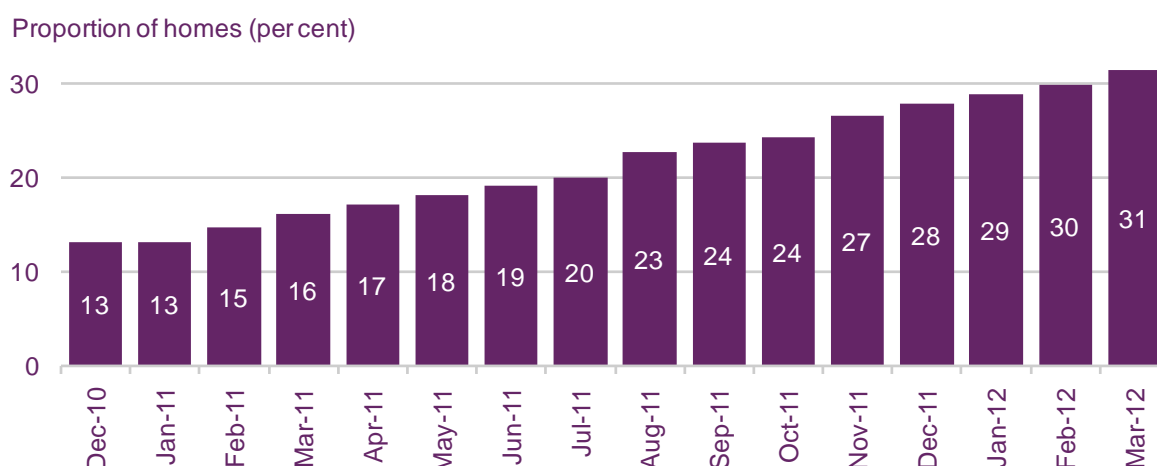
Figure 5.2 below shows Ofcom estimates of the proportion of UK homes that are able to receive services over BT's FTTC network: by March 2012 just under a third of UK homes (8.4 million) could receive these services (we have adjusted these estimates to take into account the fact that not all cabinets in a FTTC-enabled BT local exchange area have fibre run to them). This was 15 percentage points higher than a year previously, and in May 2012 BT announced that its FTTC and FTTP services were available to ten million residential and business UK premises.<sup>117</sup>

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<sup>116</sup> <http://www.btplc.com/news/Articles/ShowArticle.cfm?ArticleID=D228F2B4-25FC-4095-8EC4-BD17B903CC3B>

<sup>117</sup> <http://www.btplc.com/news/Articles/ShowArticle.cfm?ArticleID=E08DEA6E-1FD7-4994-9D52-AD165F907BCE>

**Figure 5.2 Estimated household availability of BT's fibre-to-the-cabinet network**



Source: Ofcom / BT

Note: Includes estimates where Ofcom does not receive data from operators

### **Sixty per cent of UK homes could receive superfast broadband services by March 2012**

We estimate the overall proportion of UK homes that are able to receive superfast broadband (which is defined as those services with a headline speed of 30Mbit/s or more) by overlaying the footprint of BT's FTTC network onto that of Virgin Media's cable broadband network (which is capable of supporting superfast services throughout its footprint, and which passes slightly less than half of UK homes).

We estimate that by March 2012 BT and Virgin Media's superfast services were available to 60% of UK homes, an increase of seven percentage points compared to a year previously (Figure 5.3). These estimates are likely to understate the true position because they exclude BT's FTTP network (which is in the early stages of roll-out) and homes where Virgin Media is not able to provide fixed voice and pay-TV in addition to cable broadband.<sup>118</sup> Nor do these figures include smaller-scale fibre broadband deployments such as Digital Region in South Yorkshire (which on completion will cover over 580,000 homes and businesses)<sup>119</sup>, seethelight (which plans to offer services to 50,000 properties at sites across the UK), Velocity1 (in Wembley Park, London), and Atlas Communications (which offers services in the Titanic Quarter development in Belfast).

While the availability of superfast services is increasing, so are the connection speeds available to those living in areas where FTTC and cable broadband services are available: in April 2012 BT doubled the maximum speeds offered over its FTTC network to 'up to' 80Mbit/s<sup>120</sup>, while in March 2012 Virgin Media started an 18-month programme which will double the speed of most of its cable broadband connections, in doing so increasing the speed of its fastest service to 'up to' 120Mbit/s<sup>121</sup>.

<sup>118</sup> While the most recent data available to Ofcom show that 44% of UK homes were able to receive triple-play cable services from Virgin Media in May 2012, data from 2010 show that in total 48% of UK homes were able to receive Virgin Media cable broadband in June of that year.

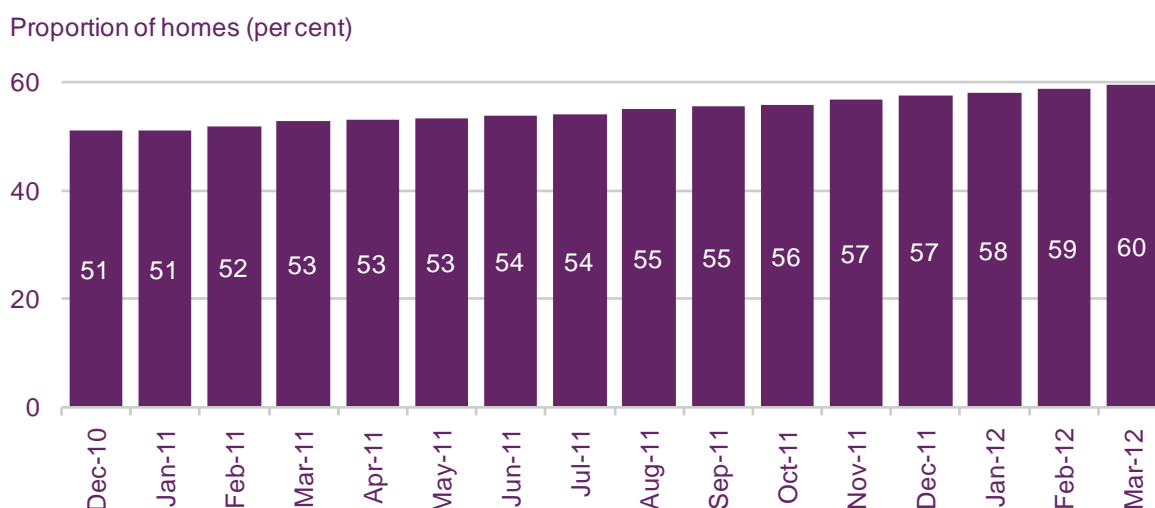
<sup>119</sup> <http://www.digitalregion.co.uk/>

<sup>120</sup> <http://www.btplc.com/news/Articles/ShowArticle.cfm?ArticleID=8037ACC3-8B5E-4414-A146-406A48D398E6>

<sup>121</sup> <http://mediacentre.virginmedia.com/Stories/Virgin-Media-s-speed-doubling-starts-2380.aspx>



**Figure 5.3 Estimated household availability of superfast broadband services**



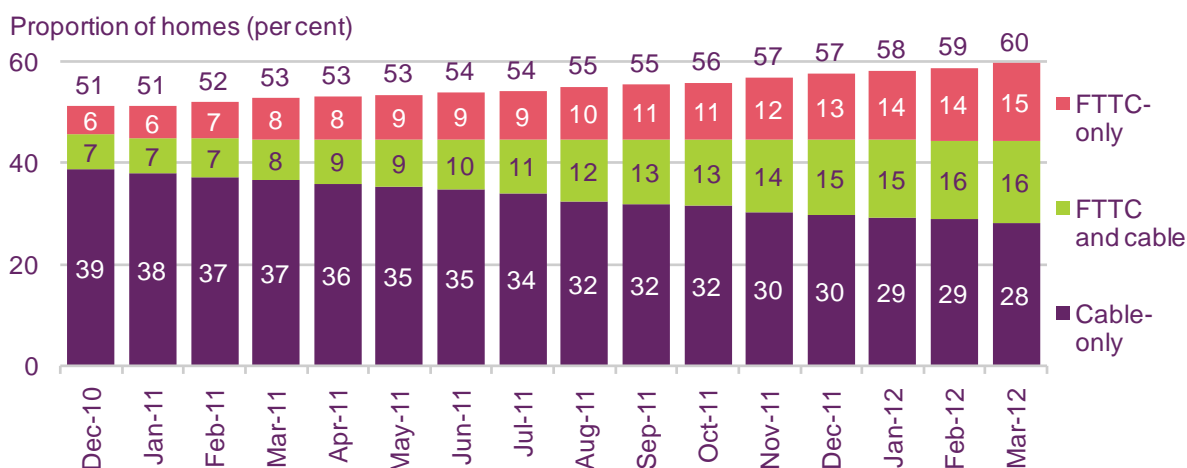
Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators

**Almost a third of UK homes had a choice of superfast broadband provider by March 2012**

We estimate that 16% of UK homes were passed by both BT's FTTC network and Virgin Media's cable broadband network by March 2012 (Figure 5.4). In addition, consumers living in FTTC areas have a choice of retail superfast broadband provider. ISPs such as TalkTalk, Sky and Plusnet (which is part of BT) also provide superfast broadband services using BT's FTTC network. Therefore in total, 31% of UK homes had a choice of superfast services available to them by the end of Q1 2012 (and as mentioned previously, this is likely to be slightly understated).

**Figure 5.4 Estimated household availability of superfast services, by technology**



Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators

## Government is investing to further increase the availability of superfast services

The UK government has expressed its commitment to the UK having the best superfast broadband network in Europe by 2015<sup>122</sup> and wants superfast broadband networks to be available to 90% of homes and businesses, with a broadband connection of at least 2Mbit/s downstream available to the remainder. To help it realise these goals, it has allocated two sets of funding:

- Firstly, £530m has been allocated to stimulate commercial investment in superfast broadband in rural communities (first announced in the *Comprehensive Spending Review* of October 2010). In particular:
  - In May 2011 it was announced that Wiltshire, Norfolk, Devon and Somerset will receive a share of £50m.
  - Parts of Cumbria, Scotland's Highlands and Islands, North Yorkshire and Herefordshire were named as beneficiaries in 2010.
  - Eighteen further local authorities are expected to benefit.
- Secondly, £100m has been allocated for superfast broadband to create 'super-connected' cities.<sup>123</sup> A total of 1.9 million homes and businesses in these cities will receive broadband connections of at least 80Mbit/s downstream, and there will also be funding for public outdoor wireless connectivity in these areas. The cities are: Belfast, Birmingham, Bristol, Cardiff, Edinburgh, Leeds and Bradford, London, Manchester and Newcastle. The government has since announced an additional £50m of superfast broadband funding for as-yet unnamed cities.

## Superfast services typically command a price premium of £5 to £10 a month

Figure 5.5 compares the lowest-cost current generation and superfast broadband services provided by a number of large ISPs, and shows that in March 2012 the lowest-cost superfast services were £10 a month more expensive than the lowest-cost ADSL2+ services for all of the ISPs considered except BT (whose price premium for a superfast service was lower, at £5 a month).

When comparing these services it is useful to keep in mind that the inclusive call allowance and data caps for the ISP packages included in the table may differ and the quoted costs are those when broadband is bought in a double-play bundle with a fixed line rental and calls package (Sky offers lower-cost alternatives when its broadband services are bought in a triple-play bundle with fixed voice and satellite pay-TV). In addition, the table excludes Virgin Media's ADSL2+ service as this is available only outside its cable network footprint, and therefore the two services are not substitutes for one another.

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<sup>122</sup> Ofcom will measure the UK's progress towards this goal and will publish a comparison with other Member States each year.

<sup>123</sup> Ten super-connected cities announced: [http://www.culture.gov.uk/news/news\\_stories/8931.aspx](http://www.culture.gov.uk/news/news_stories/8931.aspx)

**Figure 5.5 Comparison of major ISPs' superfast and current generation broadband services**

		BT	Virgin Media	TalkTalk	Sky	Plusnet
Lowest cost superfast service	Headline download speed / technology	38Mbit/s FTTC	30Mbit/s cable	40Mbit/s FTTC	FTTC	38Mbit/s FTTC
	Average actual speed, November 2011	36.0Mbit/s	31.0Mbit/s	-	-	-
	Data allowance	40GB plus unlimited WiFi	Unlimited	40GB	Unlimited	40GB plus unlimited off-peak
	Call allowance	Fixed off-peak	Virgin Media plus fixed weekend	Fixed off-peak	Fixed off-peak	Plusnet plus fixed off-peak
	Monthly cost	£18 plus line rental	£14.50 plus line rental	£16.50 plus line rental	£20 plus line rental	£16.49 plus line rental
Lowest cost current generation service	Technology / headline download speed	ADSL2+/16Mbit/s	n/a	ADSL2+/14Mbit/s	ADSL2+	ADSL2+/16Mbit/s
	Average actual speed, November 2011	8.7Mbit/s	n/a	8.0Mbit/s	7.5Mbit/s	8.3Mbit/s
	Data allowance	10GB plus unlimited WiFi	n/a	40GB	Unlimited	10GB plus unlimited off-peak
	Call allowance	Fixed anytime	n/a	Fixed off-peak	Fixed off-peak	Plusnet plus fixed off-peak
	Monthly cost	£13 plus line rental	n/a	£6.50 plus line rental	£10 plus line rental	£6.49 plus line rental
Additional monthly superfast cost		£5	n/a	£10	£10	£10

Source: Ofcom / Pure Pricing UK Broadband Pricing Briefing, March 2012

**There were 1.4 million UK superfast broadband connections at the end of March 2012, 6.6% of all connections**

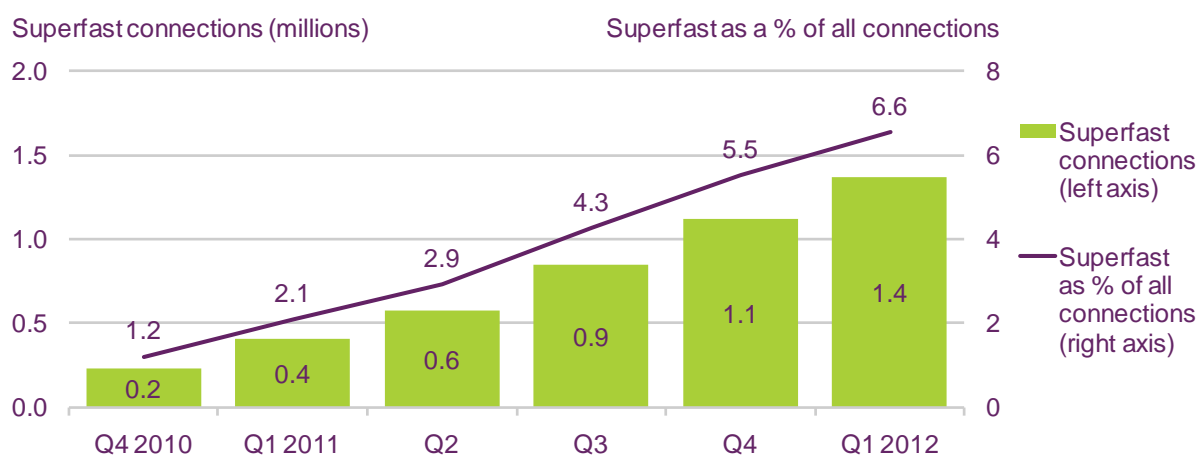
Ofcom research, conducted in November 2011, shows that the average actual speed of 'up to' 40Mbit/s FTTC services (36.0Mbit/s) was more than five times that of ADSL2+-based services (6.5Mbit/s)<sup>124</sup>. The faster speeds provided by superfast services, coupled with increasing availability, and the relatively low price differential between these and current generation broadband services, have led to growing take-up of superfast services, as shown in Figure 5.6. It is possible that increasing use of over-the-top (OTT) online services which require higher bandwidths (such as the video-streaming services provided by BBC iPlayer, LOVEFiLM, Netflix and Sky), and growth in the number of connected devices per household, is driving this increase in take-up.

At the end of March 2012 there were around 1.4 million residential and SME superfast broadband connections in the UK, 960,000 (162%) more than there had been a year previously. Over the same period the proportion of all non-corporate broadband connections that were superfast tripled, increasing by 4.4 percentage points to 6.6%, and we expect this figure to increase significantly over the next few years as Virgin Media upgrades its entire

<sup>124</sup> <http://stakeholders.ofcom.org.uk/market-data-research/other/telecoms-research/broadband-speeds/bb-speeds-nov-11>

cable broadband base onto superfast services, and more consumers upgrade from lower-speed services.

**Figure 5.6 Take-up of superfast broadband services**



Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators

### 5.1.3 New devices shape an explosion in mobile data use

2011 was characterised by several key changes in the way individuals accessed the internet on the move. Previously, the most common means of accessing the mobile internet was by using a laptop with a dongle or datacard plugged in to provide the connection to the mobile network.

Now, three new ways of accessing the internet are growing in popularity:

- Accessing the internet directly from smartphones
- Accessing the internet using a PC ‘tethered’ to a smartphone (typically a laptop which connects to the smartphone using WiFi or Bluetooth)
- Accessing the internet using a tablet computer (many tablets allow the insertion of a SIM that gives internet access via the mobile network)

In 2011 the previously rapid growth in mobile broadband take-up slowed significantly. Our definition of mobile broadband includes dongles, datacards, personal cellular hotspots (sometimes called MiFi), tablet computers with 3G connectivity and PCs with embedded mobile SIMs, but excludes subscribers using their mobile handsets.

#### **Growth in dongle mobile broadband slowed, while smartphone data use accelerated**

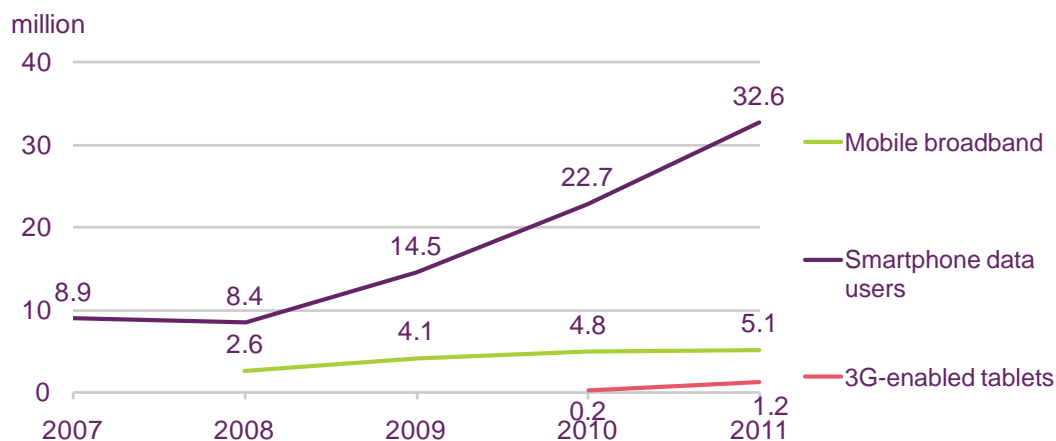
The number of active mobile broadband subscribers increased rapidly during 2009 and 2010, nearly doubling over that two-year period. But in 2011, the number increased by just 4.9%, or less than a quarter of a million. And in the fourth quarter of 2011 – usually a strong quarter for mobile services because mobile hardware is often bought as a Christmas present – the number of mobile broadband customers increased by just 0.2% compared with the third quarter, indicating a flattening of the market (see Figure 5.7). The total number of active mobile broadband subscribers was 5.056 million at the end of 2011. Ofcom defines mobile broadband as being PC-based, so these figures include dongle-based mobile broadband, but do not include smartphones.

However, accessing mobile broadband services from tablets appears to be increasing rapidly. Ofcom's estimates, based on research conducted for the *Communications Market Report*, suggest that there were over 1.2 million 3G-enabled tablets being used in the UK in the first quarter of 2012. While not all 3G-enabled tablets will be connected to an active mobile broadband service – and in households with multiple tablets, the tablets may share a mobile broadband connection – this research does demonstrate the growth in this new way in which consumers are accessing the internet. This is backed up by research released in January 2012 by Comscore, which found that 2.0% of browser-based views of web pages came from tablets (5.1% come from smartphones).

The usage of smartphones as a means of accessing the internet has also risen quickly. Ofcom estimates that in 2011, 32.6 million subscribers accessed the internet via their mobile phones, an increase of nearly 10 million since 2010. This increase has been driven largely by more subscribers choosing to own a smartphone. Smartphones make accessing the internet, and web-based applications, much quicker and easier. Some of the demand for smartphones may be attributable to the increasing use of social networking sites, commonly available pre-installed on smartphones. Three per cent of UK households now rely on a smartphone as their sole means of home internet access.

Some smartphone subscribers are using their device to provide mobile connectivity for their PCs – an activity known as tethering. They often do this because it is easier to view content on a PC-sized screen than on a smartphone screen, and because tethering removes the need to subscribe to a separate mobile broadband package. Some tariffs have been offered with tethering in mind (which might be expected to stimulate demand) but some network operators block tethering, or charge for it at more expensive rates. Based on data from YouGov's quarterly *SMIX smartphone report*<sup>125</sup>, Ofcom estimates that 12.64% of smartphone subscribers use tethering.

**Figure 5.7 Number of mobile broadband connections, 3G-enabled tablets and users accessing the internet on their mobile device**



Source: Ofcom data based on submissions by operators and Ofcom market research. Consumers accessing the internet on their mobile phone and 3G-enabled tablets are estimates based on these data. Mobile broadband figures are for December of the stated year and the other two categories are for the first quarter of the following year.

<sup>125</sup> The SMIX (Smartphone Mobile Internet eXperience) series of reports is published quarterly by YouGov and is based on market research of smartphone users.

## Mobile broadband bucked the voice trend and became more pre-pay focused

Although it seems that some consumers are substituting PC-based data for smartphone-based data, this may not be due to dissatisfaction with mobile broadband; satisfaction levels have increased over the past three years. In 2009, 70% of mobile broadband subscribers said they were satisfied or very satisfied with their service, according to Ofcom's market research. By 2012, this had risen to 79%.

What is apparent, however, is that there are several new dynamics related to mobile broadband use. One of the most interesting is the increasing proportion of pre-pay vs post-pay connections – exactly the reverse of what is happening with handsets.

The penetration of post-pay mobile broadband fell to just 51% in 2012 (42% pre-pay), compared with 72% (19% pre-pay) in 2009, according to YouGov's *DongleTrack*<sup>126</sup> report (the remainder were don't-knows).

It appears that the most common driver for consumers signing up to pre-pay mobile broadband deals is that they do not use enough data to make it worthwhile signing up to a contract: 64% of respondents to YouGov's *DongleTrack* survey stated this as a reason for choosing a pre-pay deal (see Figure 5.8). The increasing use of smartphones for consuming mobile data may be contributing towards this driver.

Pre-pay mobile broadband is also appealing because many subscribers are seeking flexibility and control of their mobile broadband connections: 39% of respondents to the *DongleTrack* survey said that a dislike for signing contracts was a reason for them choosing a pre-pay tariff.

Only 46% of respondents told YouGov that mobile broadband was a permanent solution for them; 43% that said it was temporary. The temporary nature of mobile broadband take-up may be because mobile broadband tends to appeal the most to younger adults and those in rented accommodation. Approximately one in five households of 16-34 year-olds (who tend to be more geographically mobile) used mobile broadband, compared with the national average of just over one in eight, according to Ofcom's research in Q1 2012. Ten per cent of privately-rented households are mobile-broadband-only: double the national average. Both these groups tend to stay in one place for shorter periods of time, making 18- and 24-month contracts less attractive.

Nearly one in five consumers said they had decided on a pre-pay mobile broadband deal because they were unsure how much data they were going to consume. This may indicate a wish among some consumers for simple, easy-to-understand tariffs, and may help to explain the popularity of unlimited tariffs, where they are available.

The increasing availability of a wide choice of pre-pay, flexible tariffs based on a range of time and data limits and at low price points may also be acting as a driver for the take-up of pre-pay mobile broadband. The widespread introduction of pre-pay mobile broadband tariffs comes more than a decade after the introduction of pre-pay voice tariffs, which has led to the majority of mobile subscribers using pre-pay tariffs (these numbers are only now reducing significantly).

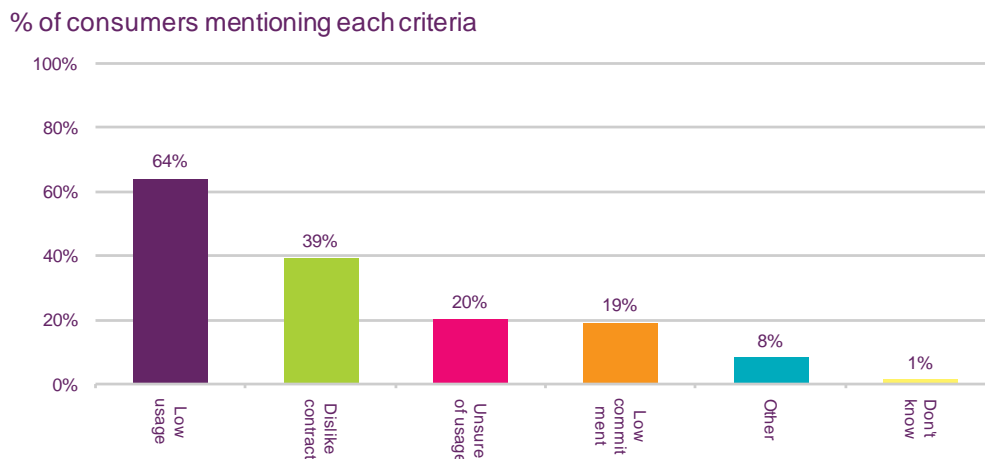
For example, Orange and T-Mobile offer a T-Mobile-branded pre-pay deal for which subscribers can opt to pay for only those days or weeks in which they use the service (£2 per day or £7 per week). Vodafone offers a deal for tablet owners in which they can

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<sup>126</sup> The *DongleTrack* series of reports is published quarterly by YouGov and is based on market research of dongle users of mobile broadband.

purchase 250MB at a time for whenever they want to use it (£5 per top-up). And Three offers pre-pay top-ups that cost as little as £6-£7 per gigabyte. Contract rates typically start at about £10 per month for most mobile operators, making pre-pay mobile broadband attractive to consumers who use 1GB or less per month.

**Figure 5.8 Reasons for choosing pre-pay mobile broadband**



Source: YouGov DongleTrack

### Lower-income groups more likely to subscribe to mobile broadband only

The UK's mobile broadband networks now offer theoretical downstream speeds of up to 42Mbit/s, compared with fixed broadband theoretical downstream speeds of up to 80-100Mbit/s. For mobile, these theoretical speeds, or headline speeds as they are sometimes known, have roughly tripled in the past five years. But actual speeds experienced by subscribers are slower; Ofcom's measurement<sup>127</sup> of consumer connections found that the average download speed was 1.5Mbit/s in late 2010. There is evidence that some consumers feel that mobile broadband may now be fast enough, and reliable enough, to warrant having it in place of fixed broadband.

In the first calendar quarter of 2012, 13% of households used mobile broadband. Five per cent used mobile broadband *and not* fixed broadband, indicating that, nationwide, mobile broadband is more commonly used together with, rather than instead of, fixed broadband (see Figure 5.9).

The most affluent socio-economic group, AB, and those who own a house, more commonly bought mobile broadband with fixed broadband, rather than without it. These segments of the population may be more prepared to sign fixed broadband contracts, which tend to be longer than mobile broadband contracts, and more likely to be able to afford a second broadband contract.

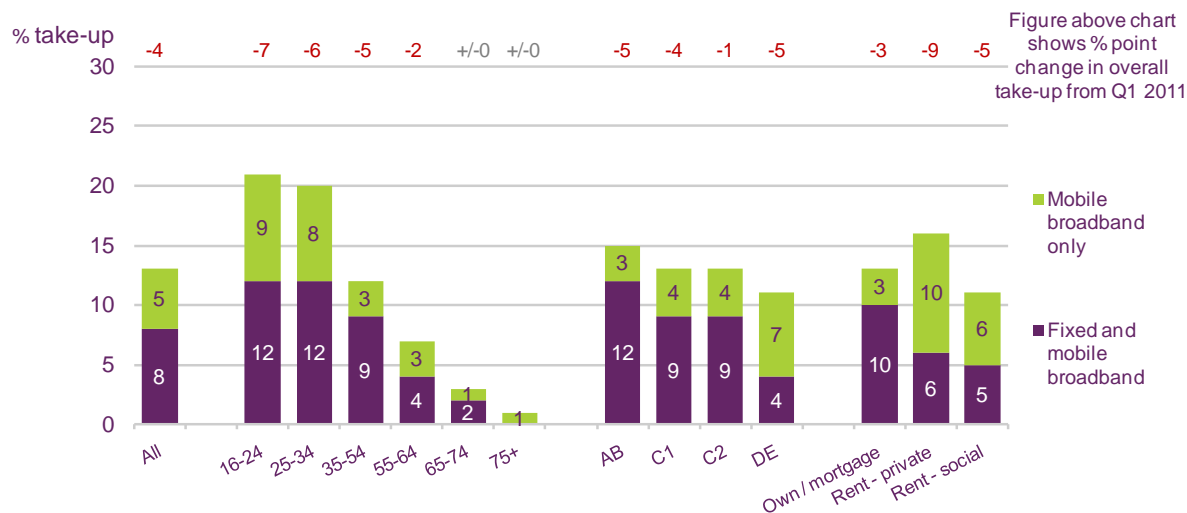
However, the least affluent socio-economic group, DE, and those in privately rented and social housing, more often bought mobile broadband without fixed broadband. These segments of the population may be less willing to commit to a long fixed broadband contract and may not be able to afford both services. In this group, we might expect to find students, who are typically in residence for less than the duration of most fixed broadband contracts.

<sup>127</sup> *Measuring Mobile Broadband in the UK*. Available at [http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/bbspeeds2010/Mobile\\_BB\\_performance.pdf](http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/bbspeeds2010/Mobile_BB_performance.pdf)



Nine per cent of households in which the respondent was between 16 and 24 years old had only a mobile broadband connection, while the figure was 8% for 25-34 year-olds, 10% for those in private rented accommodation and 7% for socio-economic group DE.

**Figure 5.9 Take-up of mobile broadband by socio-economic group, age and housing type of respondent**



Source: Ofcom research, Q1 2012. Base: all adults aged 16+ (n=3772)

The proportion of consumers who have bought mobile broadband but not fixed broadband appears to be increasing. According to *DongleTrack*, in January 2012 just 52% of mobile broadband subscribers had fixed broadband as well; down from 60% in January 2009. In January 2012, 31% of mobile broadband subscribers bought mobile broadband but not fixed, up from 28% in 2009 and up from 21% in 2011.

### Volume of data use increased significantly in 2011

Despite the changing usage dynamics, and shifts between tariffs and devices, the quantity of data consumed per subscriber continues to increase across all segments.

For example, Three reported that in February 2012, the average data use by its contract customers had risen four-fold since February 2011 to 800MB per month, according to Enders Analysis. Vodafone reported lower use per subscriber and lesser growth: in its annual results presentation in May 2012 it revealed that the average smartphone user on its networks in Europe consumed between 200MB and 300MB per month, and that total network traffic on its European networks had risen by approximately one-fifth year on year.

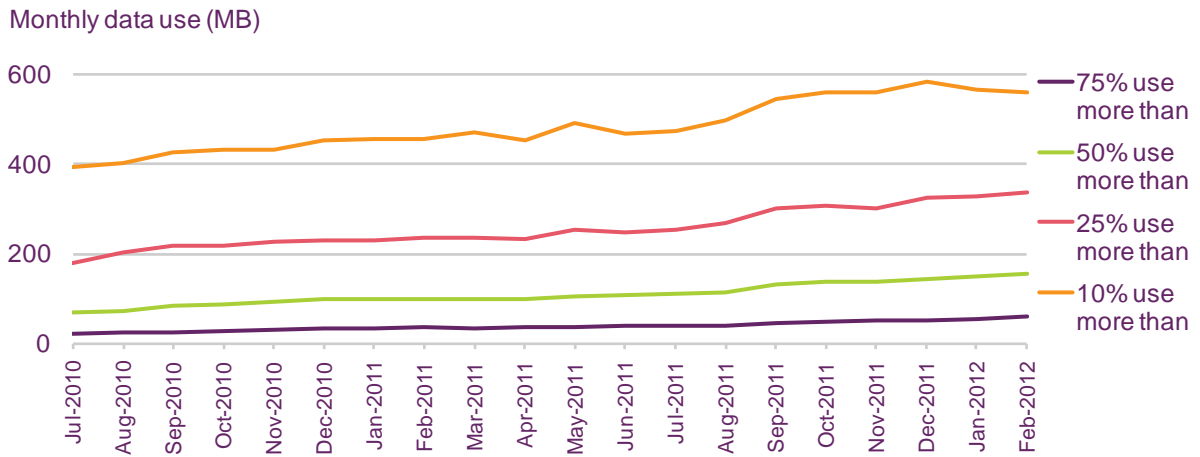
Analysis of consumer bills by BillMonitor showed that the median<sup>128</sup> data use by smartphone users more than doubled in the 18 months to January 2012. Usage was 154MB per month in January 2012 – up from 71MB in July 2010 and less than 100MB in January 2011 (Figure 5.10). Over one-quarter (27%) of smartphone users consumed over 250MB per month in January 2012, with more than one in ten consuming greater than 500MB per month. BillMonitor noted that growth in data traffic among the highest users was increasing at a

<sup>128</sup> The median is the middle value in a series of numbers sorted in numerical order. For example, the median of 2,3,4,8 and 9 is 4. The median may be below the average, particularly if there are a significant number of very high values, which is often the case with mobile data consumption. For example, the average of the five aforementioned numbers is 5.2.



slower rate than for other users, suggesting that using smartphone data is becoming a regular activity for the mass market.

**Figure 5.10 Smartphone data use**

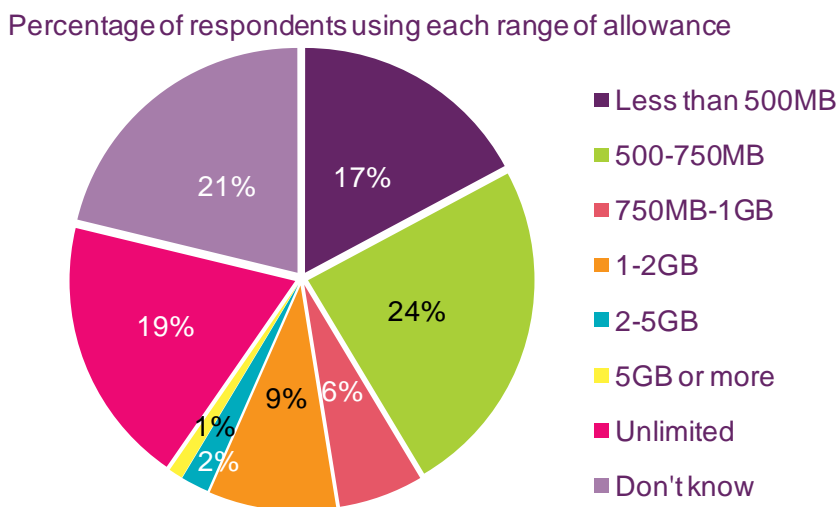


Source: BillMonitor

BillMonitor’s research suggests that the majority of consumers are using only a fraction of their data allowance – perhaps this is not surprising, given the view of some of the YouGov research panel that they have little knowledge of their level of data consumption. Eighty-eight per cent of smartphone subscribers are on a monthly data allowance of at least 500MB – around eight times the number of subscribers who actually use that much data. YouGov’s SMIX report in December 2011, although based on a different sampling method, largely agrees with this assertion: it shows that 17% of smartphone subscribers have a data allowance of less than 500MB – though in its sample, one in five consumers did not know their data allowance, meaning this figure may be higher among its respondents.

Nineteen per cent of YouGov respondents said they were on an ‘unlimited’ smartphone data tariff (Figure 5.11).

**Figure 5.11 Smartphone data caps**



Source: YouGov SMIX

Out-of-bundle data charges – which are charged to the subscriber on exceeding their allowance – are therefore low, Bill Monitor argues.

It is possible that the research of YouGov and Billmonitor both underestimate the proportion of subscribers on packages with lower data allowances, because involvement with either piece of research is more likely to appeal to more technically-minded consumers, who tend to be higher users of data.

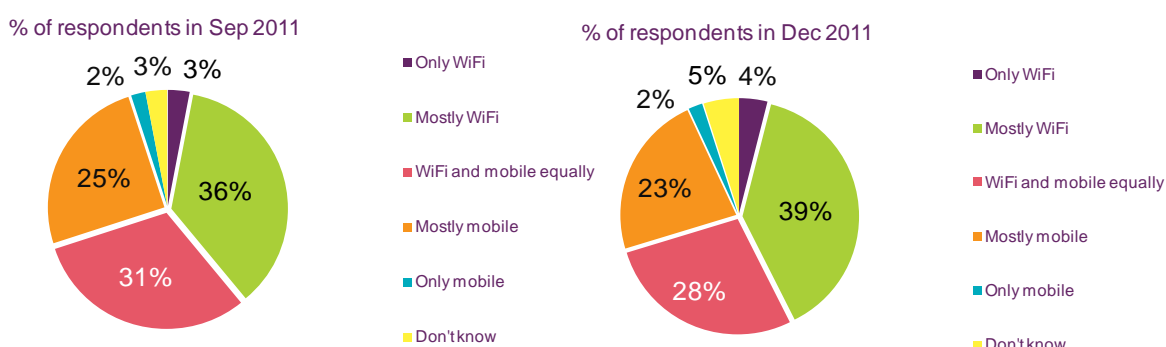
At the time of writing, unlimited data was offered on some tariffs by Orange, Three and T-Mobile. O2 and Vodafone did not, at the time of writing, offer unlimited data on smartphone tariffs: the largest bundle of data from those two MNOs was 2GB.

### Smartphone users adopted WiFi to save on mobile data and to increase speed

For subscribers who are unaware of how much data they can consume before reaching their data cap, a common-used strategy is to use the WiFi connection on their smartphone instead of the mobile network. As well as not counting towards the smartphone’s data allowance, this may also offer higher download speeds, where the user is able to connect to a WiFi network.

WiFi is the most common tool that subscribers employ to manage their data use, according to YouGov’s *SMIX report*, and WiFi use appears to be increasing. Nineteen per cent of smartphone data users use WiFi to help them stay within their tariff’s data limits, according to YouGov – this figure can be taken in the context of the statistic that nearly half of all users do nothing to manage their data use. Of those that use WiFi, 39% say they use it (as opposed to the cellular connection) most of the time when they consume data (this has risen since YouGov last asked the question in September 2011), with a further 28% saying they use WiFi and cellular networks in equal proportion for data (Figure 5.12). The frequent use of WiFi could indicate that subscribers feel they are getting closer to their tariff limits, that WiFi is more widely available, or that users are becoming more aware of the option and benefit of connecting to WiFi networks.

**Figure 5.12 Use of smartphone WiFi connection relative to cellular connection**



Source: YouGov SMIX

In terms of actual volumes of data, a paper published by Informa Telecoms & Media<sup>129</sup>, stated that 81% of smartphone data traffic was carried over WiFi in January 2012. This was measured by a third-party application called Mobidia MyData Manager. If this figure, and those from BillMonitor, are representative of smartphone users, then the median smartphone data user is sending 125MB of data each month over WiFi networks (with the remaining 29MB per month being carried by the cellular network). In practice, both BillMonitor and Mobidia may overstate usage, as their tools tend to appeal to more technically-oriented users who tend to use more data than average and who may use WiFi more than average, so some caution should be applied in interpreting these figures.

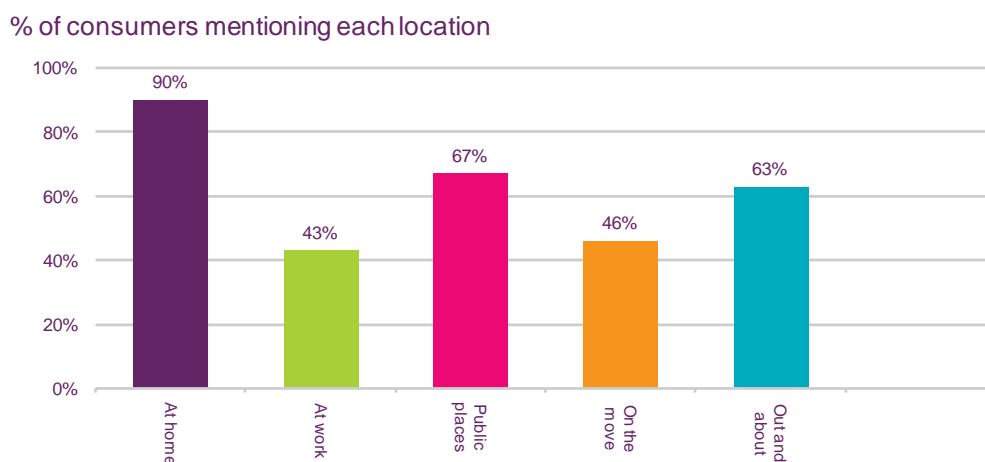
In terms of location of WiFi use, some locations are clear favourites for consumers, although usage locations will be affected by where WiFi networks are available and by how subscribers choose to use their smartphone (Figure 5.13).

By far the most popular location for smartphone WiFi use is at home, where 90% of smartphone WiFi users choose to connect to WiFi, according to YouGov's *SMIX tracker*. This is probably because access to WiFi at home is free and easy to access (because smartphones tend to store the access details).

Access in the workplace is much less frequent. Less than half (43%) of smartphone WiFi users told YouGov they accessed the mobile internet at work. This could be because some workplaces do not offer WiFi access to employees, or because IT or HR policies prohibit personal use of it.

Use is more common in public places (67%) or 'out and about' (63%). This could include WiFi in friends' houses or in coffee shops, shopping centres or on public transport. BT has a large public WiFi footprint through its *BT WiFi* proposition, whereby its fixed broadband subscribers are invited to open up their home connections to other *BT WiFi* users who are within range. Many public locations now offer WiFi access to members of the public, though only some of them offer access free of charge.

**Figure 5.13 Location of WiFi use on a smartphone**



Source: YouGov *SMIX*

Mobile network operators are keen to encourage subscribers to use WiFi access, because the radio spectrum over which cellular voice and data is carried offers finite capacity, so an alternative means of carrying data is desirable.

<sup>129</sup> Available at [http://www.informatandm.com/wp-content/uploads/2012/02/Mobidia\\_final.pdf](http://www.informatandm.com/wp-content/uploads/2012/02/Mobidia_final.pdf)

Operators including O2, Orange and Vodafone offer WiFi hotspot access free of charge on certain tariffs, in some cases through arrangements with third-party providers of WiFi hotspots. Consumers also appear to be using WiFi proportionately more in the evening, according to the Informa paper. This ties in with YouGov’s findings that most WiFi use is at home.

In December 2011, YouGov found that over half of smartphone data users (53%) use the mobile internet every day, with just 12% using it less than once a week. The most common length of time spent on the mobile internet was ‘less than 10 minutes’ – the response selected by 51% of users. Just 9% of users stayed online for more than 30 minutes on their mobile device, YouGov found.

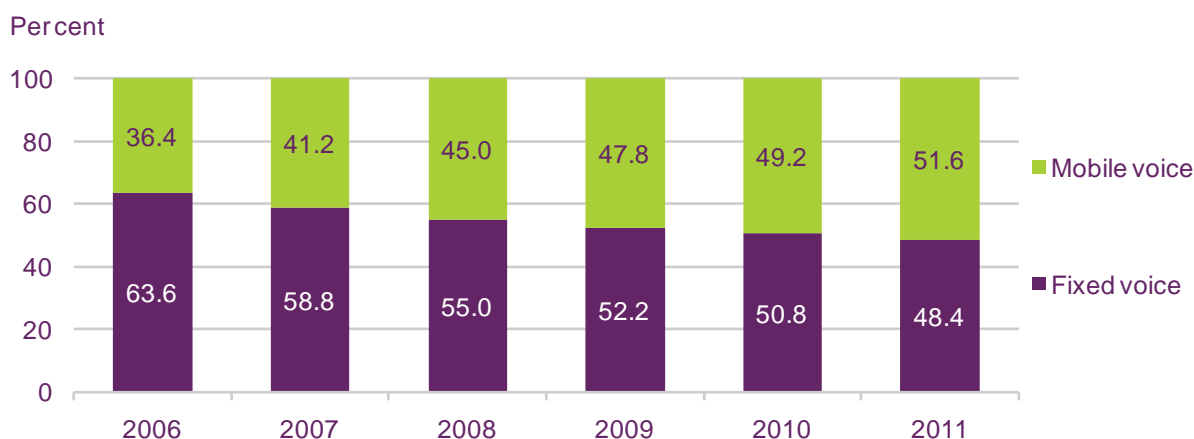
#### 5.1.4 After fixed-to-mobile substitution are we seeing voice-to-data substitution?

##### Mobile voice call minutes overtook fixed in 2011

The UK voice telephony market reached two watersheds in 2011: for the first time mobile voice call minutes exceeded fixed voice call minutes, and for the first time the total volume of mobile voice call minutes declined.

In 2011, 51.6% of voice calls were mobile-originated, an increase of 2.4 percentage points compared to 2010 and 15.2 percentage points higher than in 2006 (Figure 5.14). This was largely the result of fixed-to-mobile substitution: between 2000 (when outgoing fixed voice call minutes peaked) and 2011, fixed-originated voice call volumes fell by over a third to 116 billion minutes, while over the same 11-year period the volume of mobile-originated call minutes increased by almost 250%.

**Figure 5.14 Fixed and mobile share of total originating voice call volumes**



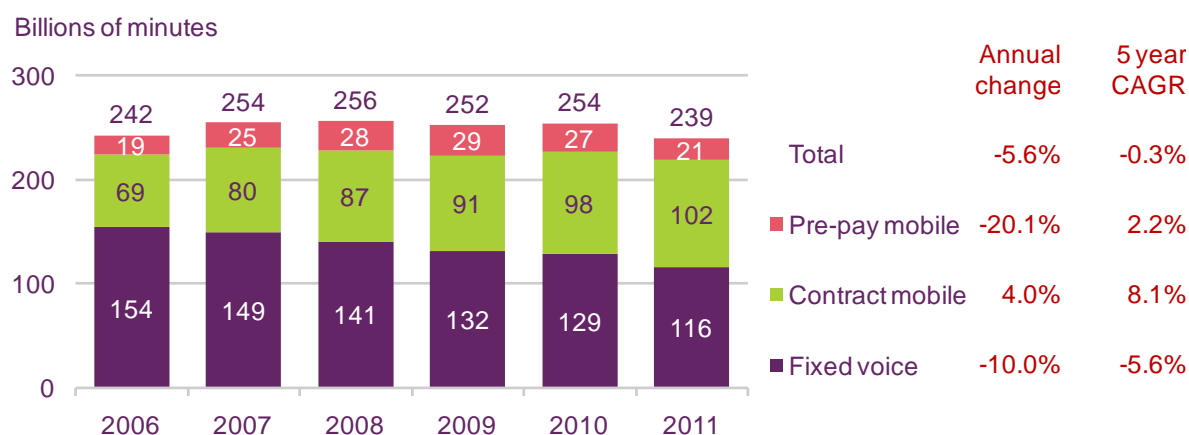
Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators

##### Mobile-originated voice call minutes fell for the first time in 2011

Despite increasing its share of total voice call minutes, total mobile-originated voice call volumes declined for the first time in 2011, falling by 1.1% to 124 billion minutes (Figure 5.15). This drop was as a result of pre-pay voice call volumes falling by over 20% during the year as higher-use customers migrated onto post-pay contracts (contract mobile call volumes increased by 4.0% over the same period). As a result, total fixed and mobile-originated voice call volumes fell by 14 billion minutes (5.6%) in 2011.

**Figure 5.15 Total fixed and mobile voice call volumes**



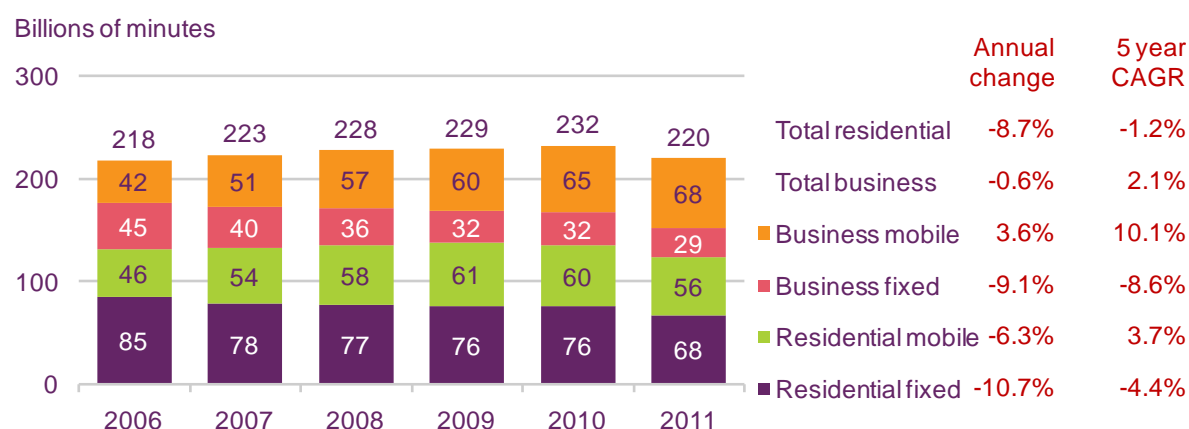
Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators

### Declining residential use was behind in falling voice call volumes in 2011

Analysis of voice call volumes by customer type shows that total business voice call volumes were unchanged at 97 billion minutes in 2011 (although this was 0.6% lower than in 2010), as a 3 billion-minute (9.1%) fall in business fixed call volumes was offset by a 2 billion-minute (3.6%) increase in business mobile voice call volumes (Figure 5.16).<sup>130</sup> It was therefore decreasing use of voice telephony services among residential consumers that was the main driver behind declining total voice call volumes in 2011: total residential voice telephony call volumes fell by 12 billion minutes (8.7%) to 123 billion minutes during the year. Both residential fixed and mobile-originated call volumes fell during the year, with the decline in fixed calls (down 10.7% to 68 billion minutes) being greater than the 4 billion-minute (6.3%) fall in mobile-originated volumes, in both call minute and percentage terms.

**Figure 5.16 Total fixed and mobile voice call volumes, by customer type**



Source: Ofcom / operators

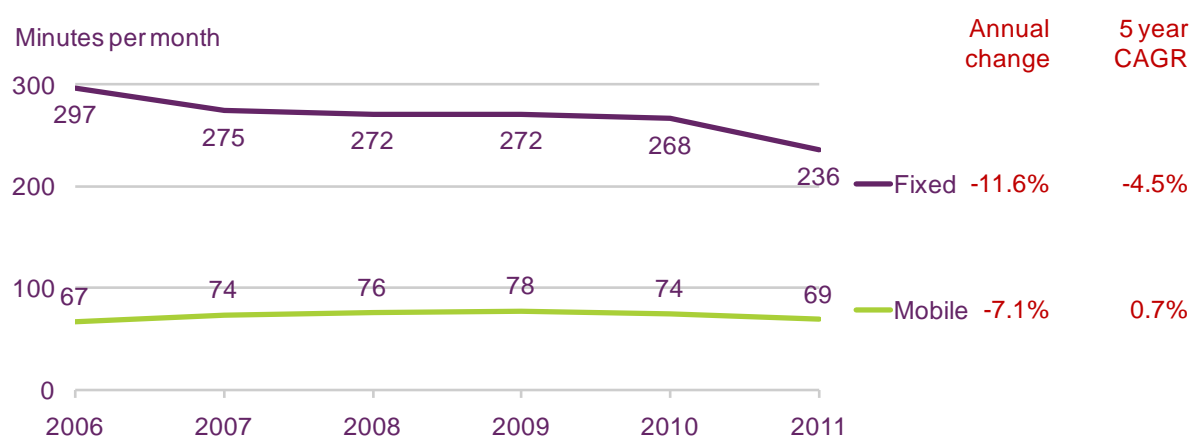
Note: Includes estimates where Ofcom does not receive data from operators; fixed call volumes exclude NTS voice calls

<sup>130</sup> The fixed call volumes used in this analysis exclude non-geographic voice calls as a split of these calls by customer type is not available.

## Both fixed and mobile call minutes per residential connection fell in 2011

The number of residential fixed and mobile voice connections (which in the case of mobile excludes mobile broadband dongles and datacards) both increased during 2011 (by 0.5% and 1.1% respectively) meaning that average use per connection fell for both services during 2011 (Figure 5.17). On average, 236 minutes of outgoing calls were made per residential fixed line per month during the year, 31 minutes per month (11.6%) less than in 2010. Average use per mobile connection was much lower than that of a fixed line in 2011, at just 69 minutes per month, a five minute per month (7.1%) fall compared to 2010.

**Figure 5.17 Average monthly call minutes per residential fixed and mobile voice connection**



Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators

## So if people are making fewer voice calls, how are they communicating?

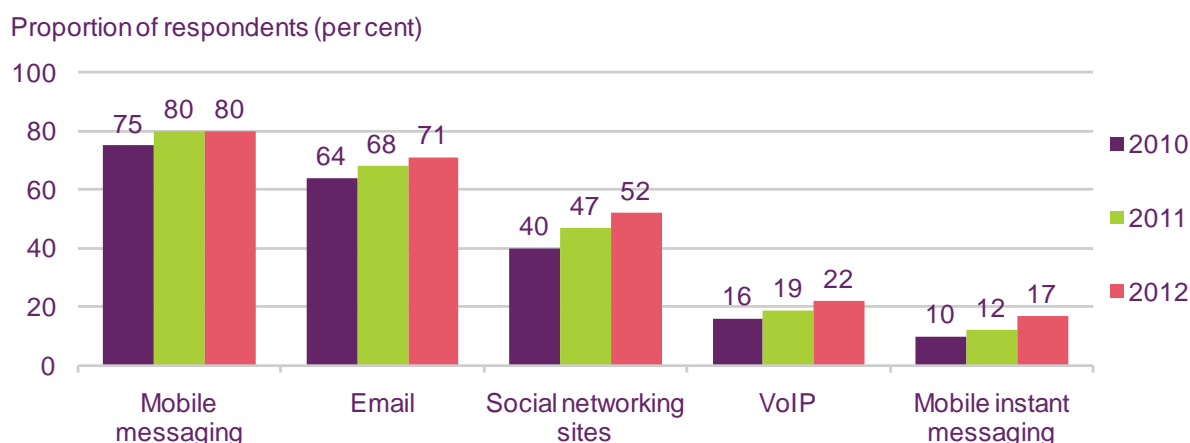
Falling voice telephony call volumes suggest that UK consumers are using voice communication services less. However, although our figures show that people are using traditional fixed and mobile voice services less, they exclude PC-originating VoIP voice calls (both PC-to-PC and breakout calls which terminate on the PSTN network). Comparable call volume figures for PC-originating VoIP calls are not available, meaning that it is not possible to definitively say whether people are using telecoms networks for voice communication less. As is shown in Figure 5.18 below, Ofcom research suggests that the proportion of adults currently using VoIP services increased from 16% to 22% between Q1 2010 and Q1 2012, so it is likely that increasing VoIP use is at least partly offsetting falling traditional voice telephony call volumes.

The other major trend over recent years has been the increasing use of other (non-voice) forms of communication, the most prevalent of which is mobile messaging. Between Q1 2010 and Q1 2012 the proportion of UK adults using SMS messaging services increased by five percentage points to 80%, and in the five years to 2011 the average number of monthly SMS text messages sent per person increased by over 20% a year, from 70 per month in 2006 to 200 in 2011. This growth has been fuelled by mobile providers including increasingly generous or 'unlimited' SMS allowances within both post-pay and pre-pay tariffs (SIM-only post-pay tariffs offering unlimited text messages are available from £10.50 a month from the mobile network providers, while on some networks a £10 a month pay-as-you-go top-up includes unlimited texts).

An additional factor driving increasing use of text-based forms of communication is growth in household broadband take-up (which was 76% in Q1 2011, 24 percentage points higher than it had been five years previously). According to the Ofcom Technology Tracker, the proportion of adults using email increased by seven percentage points to 71% in the two years to Q1 2012, while over half of adults (52%) said that they used social networking sites (which enable individuals to communicate by leaving posts on each other's pages and exchanging messages) in the first quarter of 2012.

Increasing take-up of smartphones (which were used by 39% of UK adults in Q1 2012) has also driven growth in the use of email and social networking sites, as these allow users to access these services while on-the-move. Instant messaging (IM) services (such as BlackBerry Messenger, iOS iMessage and the 'over-the-top' cross-platform services such as WhatsApp, Viber and Touch (all of which are accessed using a mobile app) have proved popular, with 44% of smartphone users (equivalent to 17% of all UK adults) saying that they used IM services in Q1 2012. Smartphones can also be used to make VoIP calls; however, many mobile tariffs do not allow the use of these services, so consumers need to connect to a WiFi network to make these calls.

**Figure 5.18 Use of communication methods other than traditional voice telephony**



Source: Ofcom research, data as at Q1 of each year  
Base: All adults 16+

**Almost a third of adults said that they used social networking sites to exchange messages with friends and family on a daily basis in Q1 2012**

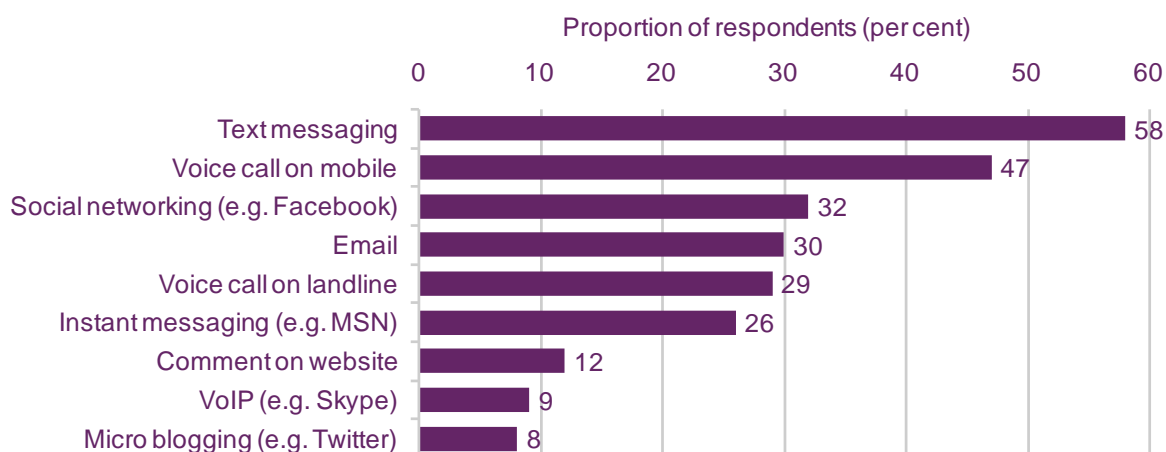
Ofcom research conducted in Q1 2012 asked consumers about the frequency with which they used different forms of communication to interact with friends and family, and Figure 5.19 shows the proportion of people using various services on a daily basis.

Text messaging, voice calls on a mobile and exchanging messages via social networking sites were the most frequently-cited forms of electronic communication among respondents, with 58% saying that they used text messaging to communicate with friends and family on a daily basis, 47% that they used mobile voice calls to do so and 32% that they used social networking sites to keep in touch. In contrast, less than three in ten (29%) said that they used a landline to call friends and family on a daily basis, only slightly more than said that they used IM services (26%).

It therefore appears that consumers are using newer forms of electronic communication where they would previously have made traditional voice calls.



**Figure 5.19 Means of communicating with friends and family used at least once a day**



Source: Ofcom research, Q1 2012

Base: All adults 16+

### **Are voice to data substitution and ‘over-the-top’ (OTT) services the next step in the use of communication services?**

Even though we are unable to conclude whether consumers are using voice communication services less, it is clear that the way in which people are using telecoms networks to interact is changing, as new technologies and services emerge. Services such as email, instant messaging and social networking sites, all of which offer alternatives to voice calls originating on fixed and mobile networks, have proved popular in the UK as take-up of mobiles, smartphones and fixed broadband has become widespread.

Although use of VoIP services is increasing, VoIP use over fixed networks has not gained the same traction in the UK that it has in countries such as France and Italy. We think this reflects the widespread availability of low-cost traditional fixed and mobile telephony services in the UK, the requirement that most fixed-broadband services also need a fixed voice line, and because very few UK fixed providers offer managed VoIP services as a straightforward substitute for traditional fixed voice services. Use of VoIP over mobile networks has also been constrained because many mobile data tariffs do not permit its use (and network connections may not be sufficient to support it, either by design or as a result of the comparatively more variable quality of a mobile data connection, compared to a fixed connection).

This growth in the use of services that use data networks as a substitute for voice services presents a number of issues for conventional voice providers. These include increased competition from OTT providers, because the services do not generate additional revenue for the network provider beyond data access revenue.

Similarly, increasing use of OTT services increases the volume of traffic on data networks, in turn requiring additional investment in network capacity by infrastructure providers. While voice services themselves are not particularly data-hungry, increasing use of OTT video services (such as those provided by BBC iPlayer, LOVEFiLM, Netflix and Sky), constitute a high proportion of data use (according to Sandvine, Netflix accounted for almost a third of



peak-time fixed network downstream broadband traffic in North America in autumn 2011).<sup>131</sup> Video-based VoIP services can also potentially have a material effect on data traffic volumes.

### Over-the-top-services

Over-the-top (OTT) services are provided over the internet rather than a managed network and are delivered directly to the end-user by the service provider, independent of the internet service provider (ISP) who owns the network over which the service is provided.

For example, managed VoIP services include those where an ISP also provides a voice service over the broadband connection. The ISP controls the provision of this voice service and the quality of service for end-to-end calls.

Unmanaged VoIP include services where a separate voice service provider (such as *Skype* or *Vonage*) provides the service on an OTT basis over a broadband connection. The provider of the broadband connection routes the traffic to the internet and there is no guarantee that they will prioritise this traffic over other types of internet traffic. Therefore, quality of service is likely to be more variable than on a managed service.

Examples of non-VoIP OTT services include *WhatsApp* and *Viber* (which provide messaging services over a smartphone's data connection) and *Netflix* and *LOVEFiLM Instant* (which stream video content over broadband).

### 5.1.5 Government announces investment to increase mobile coverage

Consumers in 99.7% of the UK's premises (homes and offices) can already make and receive phone calls and send and receive text messages using mobile connections from at least one operator.

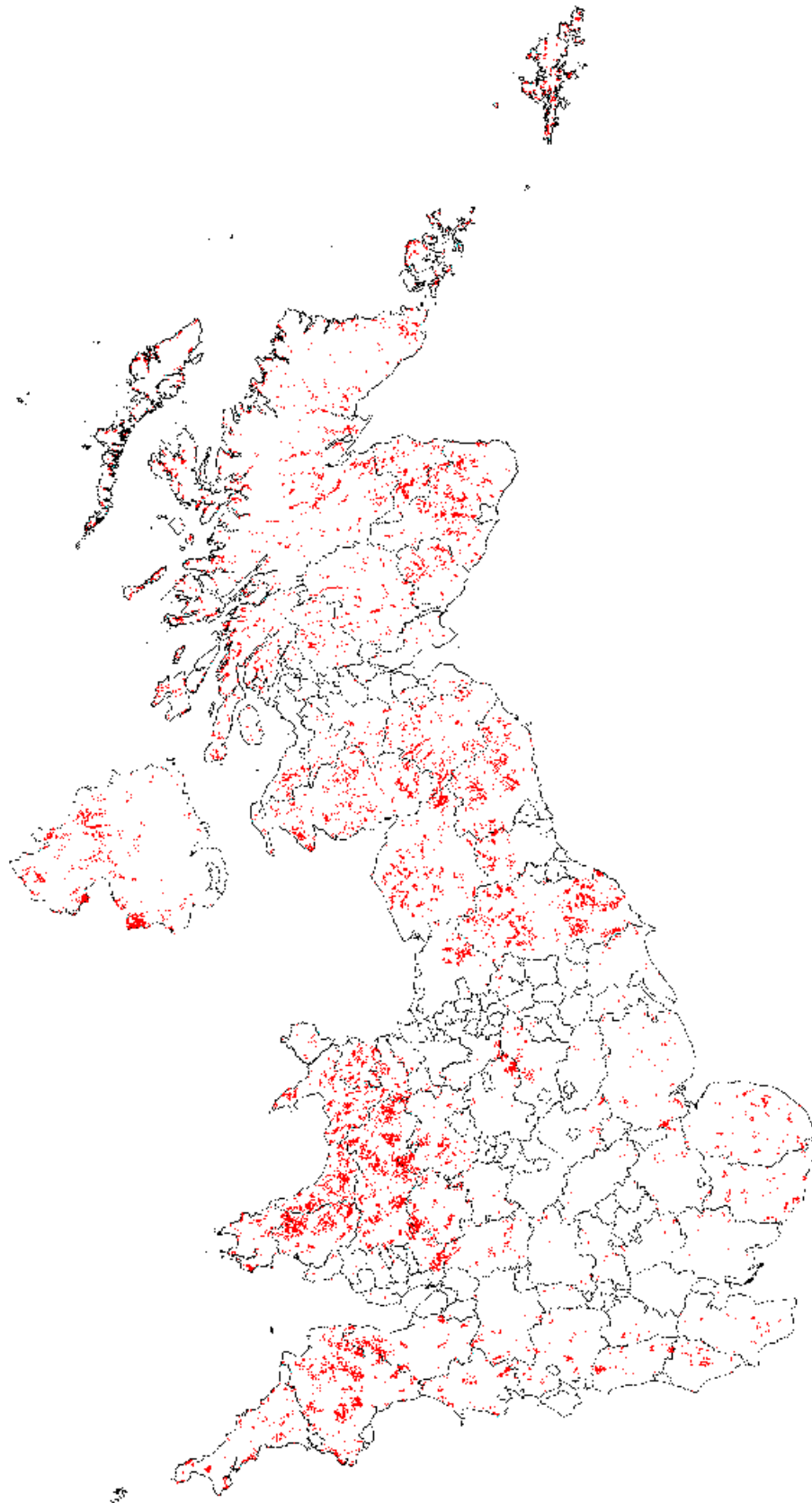
However, some premises, typically in more sparsely populated areas, still do not have outdoor<sup>132</sup> 2G mobile coverage from any operator. These premises are defined as being in a 'complete mobile not-spot'<sup>133</sup> (see Figure 5.20 for a map of complete not-spots). These complete not-spots primarily exist because it is much more expensive per premise for mobile network operators to cover these areas, due to a sparse population density and/or hilly terrain (which can cause obstructions to mobile signals, meaning signals are able to travel less far). The market on its own is unlikely to supply mobile services to all these not-spots because of the high incremental cost of building mobile infrastructure to cover these areas.

<sup>131</sup> [http://www.sandvine.com/downloads/documents/10-26-2011\\_phenomena/Sandvine%20Global%20Internet%20Phenomena%20Report%20-%20Fall%202011.PDF](http://www.sandvine.com/downloads/documents/10-26-2011_phenomena/Sandvine%20Global%20Internet%20Phenomena%20Report%20-%20Fall%202011.PDF)

<sup>132</sup> Ofcom measures mobile coverage that can be expected outside homes and businesses. Ofcom measures outdoor coverage because mobile signals penetrate through building walls in different ways depending on the type of material the building is made of. Because buildings consist of different materials and different thicknesses of material, assessing indoor coverage is more difficult than outdoor measurements. Despite the signal loss attributable to buildings, most UK homes have good indoor coverage.

<sup>133</sup> To measure mobile coverage, Ofcom divides the UK's area into 200m x 200m 'pixels'. For each pixel, Ofcom counts the number of mobile operators providing coverage. Where a pixel contains at least one home or business and the signal level of all operators is poorer than -86dBm, the pixel is classified as a 'complete not-spot'.

**Figure 5.20 Premises in complete mobile not-spots**



Source: Ofcom

However, the government believes that providing widespread mobile phone coverage is essential to drive benefits for local economies by encouraging business growth and access to online public services. To help drive these benefits, in October 2011 George Osborne, Chancellor of the Exchequer, announced<sup>134</sup> that the government would invest up to £150m towards the capital expenditure costs of improving mobile coverage in what has become known as the Mobile Infrastructure Project, or MIP.

MIP is an important part of the government's National Infrastructure Plan<sup>135</sup>, which details major commitments to improve both transport and broadband networks as well as attracting private-sector investment, which the government believes will help stimulate economic growth.

MIP aims to extend mobile voice coverage to many of the homes and businesses in complete not-spots by building new mobile sites. The Department for Culture, Media and Sport (DCMS) is in discussions with all four mobile operators to provide mobile voice services from all MIP sites.

The government is currently in the process of procuring a supplier for MIP. The supplier that wins the contract will be responsible for designing, building and operating the new infrastructure. The government expects the additional coverage to be in place by 2015, with the benefits starting to be realised from 2013.

MIP also aims to improve mobile coverage on the UK's major roads. The government has identified ten key roads that it will target – all of which have significant stretches in complete not-spots. The roads are located in all four nations: England, Northern Ireland, Scotland and Wales (see Figure 5.21). This additional road coverage may also improve mobile coverage to homes and businesses in towns and villages near these roads.

**Figure 5.21 Roads targeted to benefit from the Mobile Infrastructure Project**

Name of road	Nation	Start	End
A2	Northern Ireland	Derry	Newry
A29	Northern Ireland	Coleraine	Armagh
A591	England	Keswick	Sizergh
A169	England	Whitby	Norton
A57	England	Liverpool	Manchester
A470(T)	Wales	Llandudno	Cardiff
A82(T)	Scotland	Inverness	Glasgow
A360	England	Devizes	Salisbury
A143	England	Great Yarmouth	Haverhill
A352	England	Sherborne	Wareham

Source: Department for Culture, Media and Sport

Ofcom has played an important role in identifying the location of not-spots and is continuing to support the government in delivering MIP.

<sup>134</sup> More on the government's MIP announcements can be found on the Department of Culture, Media and Sport's website at

[http://www.culture.gov.uk/what\\_we\\_do/telecommunications\\_and\\_online/8757.aspx](http://www.culture.gov.uk/what_we_do/telecommunications_and_online/8757.aspx)

<sup>135</sup> National Infrastructure Plan 2011 [http://www.hm-treasury.gov.uk/national\\_infrastructure\\_plan2011.htm](http://www.hm-treasury.gov.uk/national_infrastructure_plan2011.htm)

## 5.2 The telecoms industry

### 5.2.1 Introduction

In this section of the report, we examine recent trends in the telecommunications market from the perspective of industry revenues, subscribers and volumes. This section is divided into four sections:

- Industry overview: top-level findings from the UK telecoms industry
- Fixed markets: this covers fixed-line telephony and fixed broadband
- Mobile markets: this covers mobile telephony, mobile messaging, mobile data, mobile broadband and machine-to-machine.
- Business markets: this covers fixed and mobile telecoms subscriber, revenue and volume figures as well as some market research, and excludes corporate figures

The key findings in the section of the report are:

- **Total operator-reported telecoms revenues fell by 1.9% in 2011 to £39.7bn.** The main factor behind this fall was wholesale services, which fell by 8.9%. Retail service revenues increased by 0.2% during the year.
- **In 2011, households spent an average of £65.04 a month on telecoms services, £3.02 less than in 2010.** This equated to 3.0% of average total household spend.
- **The average cost of making a mobile voice call fell to broadly the same level as a fixed voice call in 2011.** The average cost of a mobile-originated voice call in 2011 was 8.5 pence per minute, just 0.3 pence per minute (3.1%) more than the 8.3 pence per minute average for fixed-originated voice calls.
- **Voice revenues declined, in contrast to data revenues.** Fixed voice revenues declined by 4.9% in 2011 to £8.9bn, while mobile voice revenues fell by 0.9% to £10.5bn. Mobile messaging and handset data revenues increased 5.5% to £4.6bn. Fixed data revenues (broadband and narrowband) increased by 6.8% in 2011 to £3.4bn, with broadband contributing the vast majority. (All figures are retail.)
- **The volume of voice calls shrank for both fixed and mobile telephony, while the volume of mobile calls exceeded fixed.** The number of minutes of calls made from fixed telephones was down 10.0% in 2011, while the number of minutes of calls made from mobile phones fell for the first time: down 1.1% on 2010. For the first time, over half (52%) of all call volumes were made from a mobile.
- **People in the UK sent an average of 200 SMS and MMS messages per month in 2011.** The average number of text and picture messages sent per UK inhabitant continued to increase in 2011, growing by 17% to 200 messages per month.
- **Growth in smartphone take-up resulted in increasing use of mobile data in the year to Q1 2012.** The average time spent using mobile data services was 2.1 hours a month in 2011, 25 minutes per month (24.7%) more than in 2010, while the volume of data consumed more than doubled in the 18 months to January 2012.

- **Nearly half of all mobile subscribers are on a contract.** The migration from pre-pay to contract continues, as the proportion of active mobile subscribers on contracts increased by 3.5 percentage points to just over 49%.
- **A third of people aged 16 to 24 lived in homes where mobiles were the sole form of telephony in Q1 2012,** more than twice the 15% average across all adults. The figure among 25-34 year olds was also high, with over a quarter (26%) living in a mobile-only household.
- **The total number of UK fixed broadband connections passed 20 million for the first time in 2011.** In addition, the number of mobile broadband connections passed 5 million during the year, and by the first quarter of 2012 76% of UK homes had a broadband connection of some description, with most of these (84%) relying solely on a fixed broadband connection.

## 5.2.2 Industry overview

### UK telecoms revenue fell for the third consecutive year in 2011

The UK telecommunications industry generated £39.7bn in service revenues in 2011. The majority of this revenue - £27.4bn – was generated by residential retail services, with £3.6bn by corporate data services<sup>136</sup> and £8.8bn by wholesale services.

Total revenues declined by 1.9% from 2010 to 2011; the third consecutive annual fall (see Figure 5.22). The largest percentage decline was for wholesale services – down 8.9% year on year – largely because of the reduction in mobile termination rates (MTRs)<sup>137</sup>. Prior to April 2011, MTRs were capped at 4.18p per minute (4.48p per minute for Three). From 1 April 2011 until 31 October 2011, MTRs were set at a maximum of 2.66p per minute<sup>138</sup> for all mobile network operators. From 31 October 2011 until 31 March 2012 these rates were set to 2.69p per minute.

Despite the decline in mobile wholesale revenue, the mobile sector continued to contribute a majority share of UK telecoms revenues in 2011 (52%) – mobile revenues have exceeded fixed<sup>139</sup> revenues since 2007. Both fixed revenues and mobile revenues decreased by about £0.5bn between 2010 and 2011.

Consumer retail service revenue declined 0.3% year on year, while corporate data services revenue – driven by a growth in demand for Ethernet wide area networks and for hosting services – grew 4.9% year on year. Growth in revenue in consumer services was shown by both fixed broadband and mobile data.

These figures are significantly different to the numbers compiled by the Office of National Statistics (ONS), which calculates total telecoms turnover as £66.4bn in 2011, an increase of 1.3% on its 2010 total. The ONS' figure is different from the Ofcom figure because the ONS includes revenue from activities not regulated by Ofcom, like the sale of mobile handsets and other telecoms equipment.

<sup>136</sup> Wide area connectivity and web hosting services. For more details, see Figure 5.50.

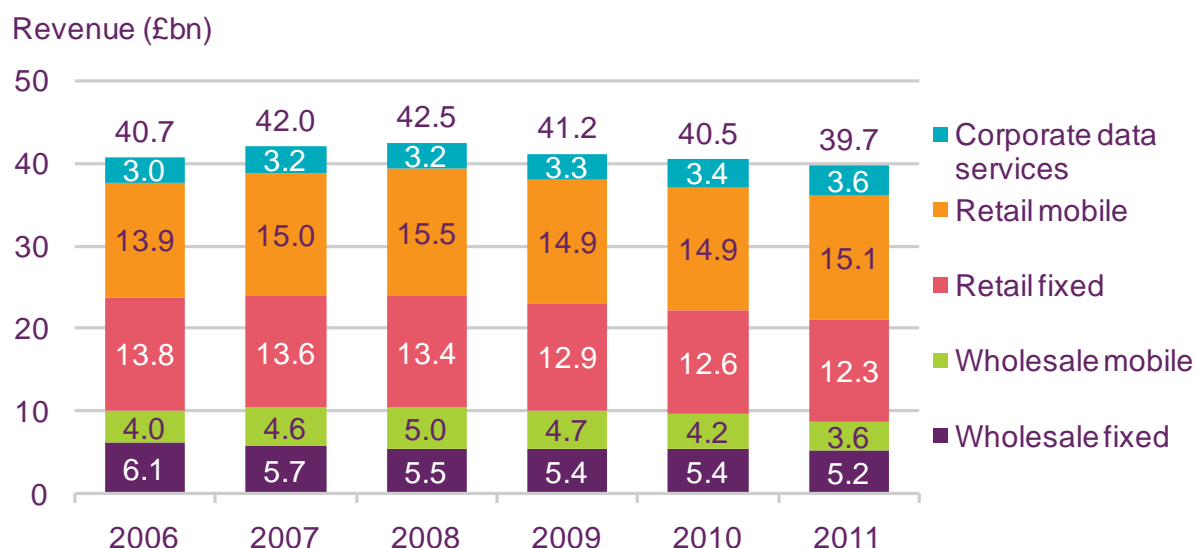
<sup>137</sup> Mobile termination rates are fees paid to a mobile network operator for terminating a telephone call on their network. So if a customer of operator X makes a call to a mobile on operator Y's network, X pays Y the mobile termination rate.

<sup>138</sup> Rates are expressed in real 2008/9 prices

<sup>139</sup> We have excluded corporate data service revenues in this comparison because they are fixed services and we do not report directly comparable corporate mobile figures.

The retail and wholesale data were reported to Ofcom by network operators. Corporate data services figures were supplied by analyst company IDC.

**Figure 5.22 UK telecoms revenue by wholesale and retail, fixed and mobile, and corporate data services**



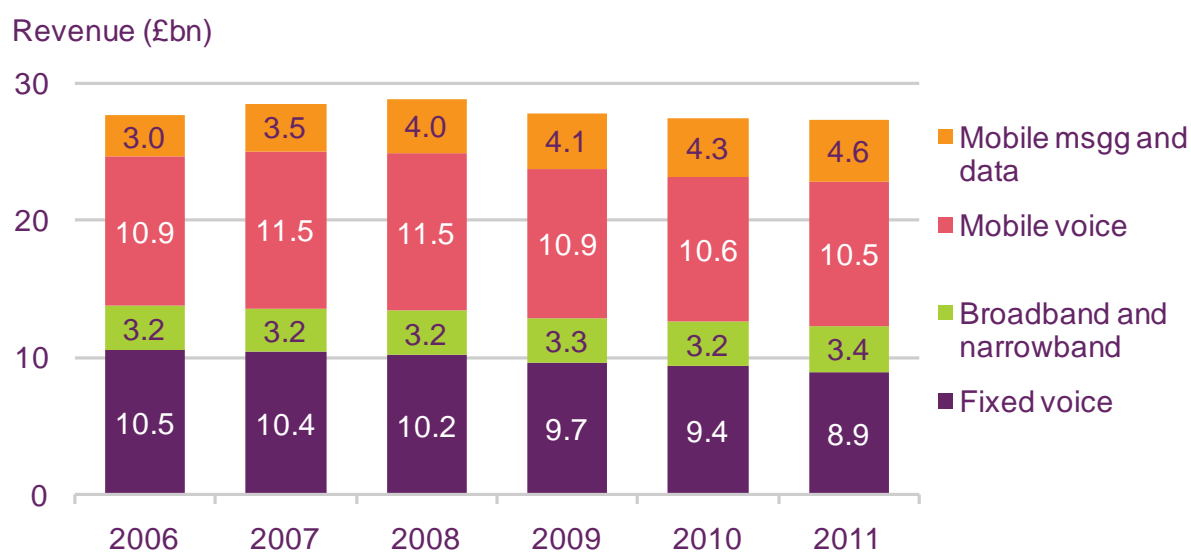
Source: Ofcom/operators (retail and wholesale data); IDC (corporate data services data)

### Retail voice revenues declined but retail data and messaging revenues increased

Retail voice revenues have declined each year since 2007, with a decrease of 2.8% from 2010 to 2011 (Figure 5.23). Fixed voice faced the largest year-on-year decline to 2011, at 4.9%, while mobile voice revenues were down over the same period by 0.9%. However, at a total of £19.4bn, voice revenues still made up in excess of 70% of retail telecoms revenues in 2011.

Data services accounted for just under 30% of retail revenues, with mobile messaging and mobile handset data contributing the majority. There was over 5% growth in mobile messaging and mobile handset data in 2011, although mobile messaging showed a small decline. Fixed data revenues (primarily broadband and excluding corporate data services) increased by nearly 7%. Over the last five years, fixed data revenues have been broadly flat, while the total of mobile messaging and mobile handset data revenues has steadily increased.

**Figure 5.23 Total retail revenue, by voice and data**



Source: Ofcom/operators

### Average revenue per user (ARPU) fell for voice but rose for data

Despite the fact that total fixed voice revenues are declining, subscribers are still spending more per person on fixed voice than on fixed broadband or mobile services. The average fixed voice subscriber, including homes and businesses, spent £22.26 per month in 2011, compared to £13.70 per month for fixed broadband services (Figure 5.24). Each mobile subscriber spent an average of £13.34 on mobile voice and messaging, with an additional £2.09 on mobile handset data. In 2011, mobile broadband subscribers spent only just over £1 per month less than fixed broadband subscribers, at £11.96. Mobile broadband includes subscribers using dongles and tablets, but not smartphones.

Fixed voice average revenue per user (ARPU) has fallen, however, over the last year – down by £1.05 per month. This has been due to falling call prices and volumes more than compensating for increasing line rental costs.

Fixed broadband ARPU increased by 19 pence per month, which may in part be due to increasing take-up of superfast services, which tend to be priced at a premium to slower services. In contrast, increasing take-up of unbundled broadband services as well as bundled services may be contributing downward pressure to broadband ARPU.

Because broadband is commonly sold as a bundled service, the separation of fixed voice and fixed broadband revenues should be treated with some caution: line rental fees are attributed to telephony, although most fixed broadband subscribers require a telephony line in order to subscribe to broadband services. The mix of the attribution of bundled fixed-line revenues to telephony or broadband is decided by the operator concerned.

Both mobile voice and mobile messaging ARPU fell during 2011, with the average subscriber spending 33 pence per month less on those services compared with 2010, despite an overall migration of subscribers from pre-pay services – where subscribers typically spend less – to contracts, where subscribers typically spend more.

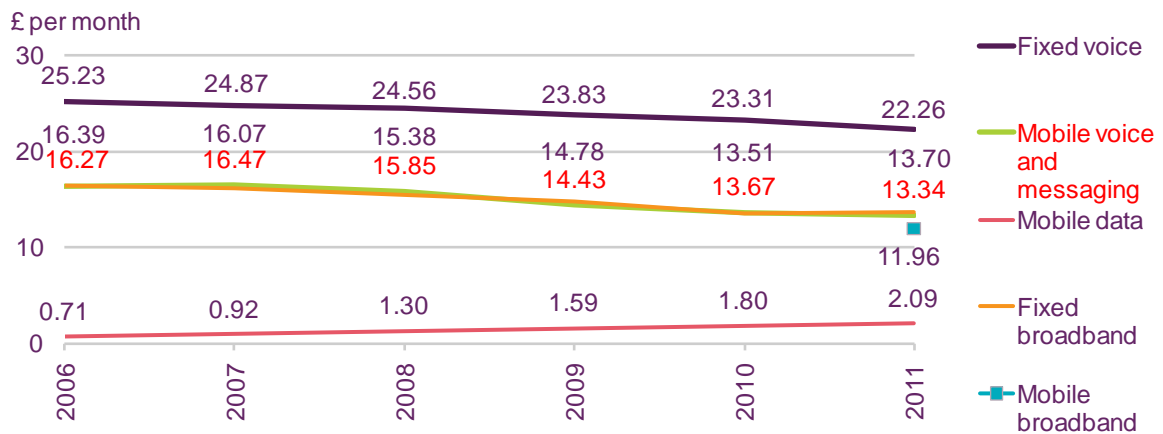
For mobile handset data, ARPU increased by 29 pence per month from 2010 to 2011. This rise was driven by increasing volumes of use per subscriber (as discussed in the Key Market Developments story on mobile data use, earlier in the Telecoms and Networks section) and



more subscribers choosing to own smartphones, which make surfing the internet much easier. Some caution should be taken in interpreting the mobile figures, for the same reason: common bundling of services that makes attribution of revenues to individual services more difficult. There are no available time-series data for mobile broadband.

Unlike fixed lines, mobile phones are generally not shared with others living at the same address, so mobile revenue per subscriber might be expected to be lower than for fixed services.

**Figure 5.24 Average revenue per user (ARPU) per month, by service**



Source: Ofcom/operators except for mobile broadband figure which was from YouGov DongleTrack research. In this chart, mobile data refers to handsets only and so excludes mobile broadband.

### The volume of mobile call minutes exceeded the volume of fixed-line call minutes

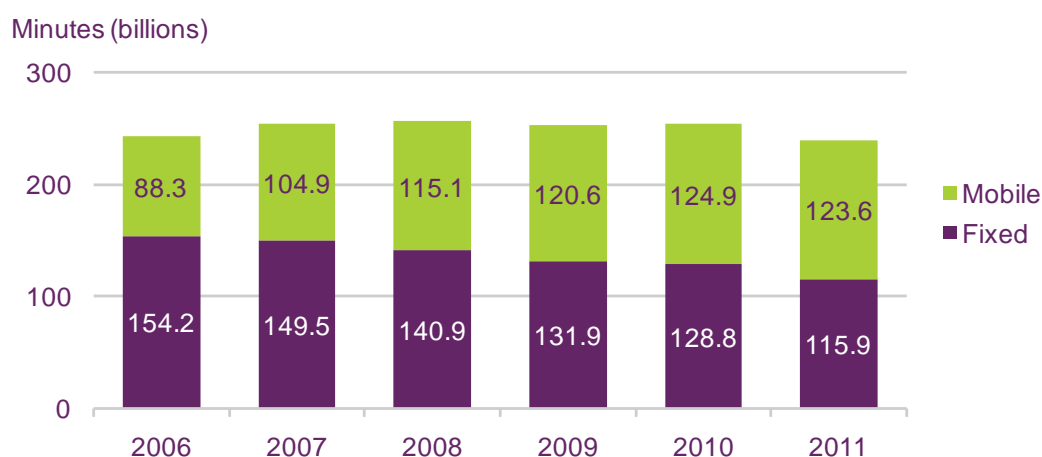
For the first time, the volume of calls from mobile phones exceeded the volume of calls from fixed phones in 2011, comprising 52% of total voice calls (Figure 5.25). This was largely the result of a fall of 10.0% in the volume of calls from fixed phones from 2010 to 2011, following four previous years of decline.

But for the first time, mobile call volumes fell too - by a much smaller 1.1%. In previous years, declining fixed call volumes have largely been attributed to the substitution of mobile telephony for fixed telephony. However, it now appears that new factors have become important.

For example, some consumers may have swapped telephone calls for text messaging, instant messaging and social networking, which have all increased in use. The increased use of text messaging has been driven partly by tariff bundles that now often include unlimited, or large volumes, of SMS. The widespread use of some types of handsets, such as the BlackBerry, have also contributed to frequent instant messaging, while the prevalence of smartphones has made it easier to use social networking tools on the move. This trend is explored in one of the Key Market Development stories in the Telecoms and Network section.



**Figure 5.25 Volumes of outgoing fixed minutes and mobile minutes**



Source: Ofcom/operators

### Growth in mobile and broadband connections has slowed

Mobile accounted for the majority of telecoms connections, with 81.6 million active connections at the end of 2011, a rise of 0.5% compared with December 2010. ('Active' means the connection has been used in the previous three months). However, the rate of growth of mobile connections has slowed: the 2011 growth figure compares with the compound annual growth rate from 2006 to 2011 of 3.1%. (Figure 5.26). The slowing of the rate of growth in mobile connections is likely to be a reflection of market saturation: according to Ofcom's market research, 94% of UK adults used a mobile phone in the first quarter of 2012.

Growth in the number of mobile broadband subscribers, which are included in the total of mobile subscribers, also slowed in 2011. At the end of 2011, there were 5.1 million active mobile broadband subscribers, an increase of 4.9% compared with 2010. This growth rate compares with the compound annual growth rate from 2008 to 2011 of 26%.

In terms of fixed lines, the number of PSTN<sup>140</sup> connections declined by 0.5% in 2011: a much smaller decrease than in many other European countries. The number of residential PSTN connections increased: this may be due to the fact that a PSTN line is necessary for households to subscribe to a DSL<sup>141</sup> broadband service. The number of business PSTN connections decreased amid fixed-mobile substitution.

The number of ISDN<sup>142</sup> connections has declined every year since 2007, falling by a cumulative total of nearly 23%. ISDN connections are mainly used by businesses, which have in many cases swapped them for broadband or other voice lines, including mobile.

In contrast to fixed voice lines, the number of fixed broadband connections continued to increase: up by over 1.3 million in 2011 to a total of 20.4 million, as more households

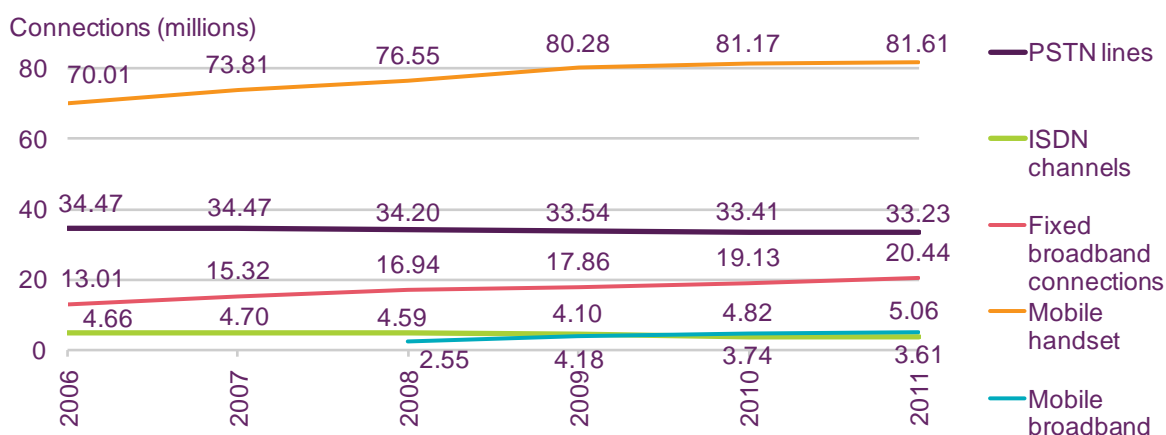
<sup>140</sup> The PSTN (public-switched telephone network) is the network that manages circuit-switched fixed-line telephone systems and is the infrastructure that carries most consumers' calls.

<sup>141</sup> DSL (digital subscriber line) is a family of technologies capable of transforming ordinary phone lines into high-speed digital lines capable of supporting advanced services such as fast internet access. There are variants such as ADSL and VDSL. These are asymmetric technologies of which the latter tends to be faster.

<sup>142</sup> ISDN (integrated services digital network) is a standard developed to cover a range of voice, data and image services intended to provide end-to-end, simultaneous handling of voice and data on a single link and network.

connected to the internet and faster connections made a more attractive offering to those considering subscribing to a broadband service.

**Figure 5.26 Number of connections, by service**



Source: Ofcom/operators. Mobile broadband figures are also included in the total mobile figure.

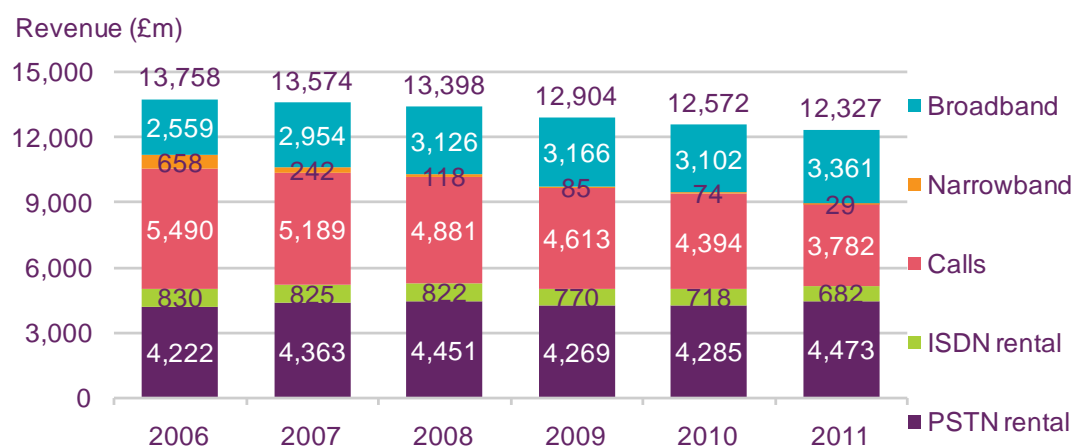
### 5.2.3 Fixed markets

#### Total fixed revenues fell, but broadband and PSTN rental revenues rose

Total revenues from fixed telecoms have fallen in each of the last five years at a compound annual growth rate (CAGR) of -2.2%. However, this overall figure masks very different trends in individual services. PSTN line rental revenue rose 4.4% from 2010 to 2011, as many line rental packages now often include unlimited calls to geographic numbers and sometimes bundled minutes to mobiles, non-geographic numbers and international numbers. However, the increase in line rental revenue has been more than offset by a decrease in metered call revenues, which were down by a CAGR of 7.2% from 2006 to 2011.

Narrowband revenues have declined to less than 5% of their 2006 value, as most consumers have migrated from dial-up internet services to broadband. Accordingly, broadband revenues have increased, with a CAGR of over 5% from 2006 to 2011, representing over one-quarter of fixed revenues at the end of 2011 (Figure 5.27).

**Figure 5.27 Fixed telecoms revenues, by access technology**



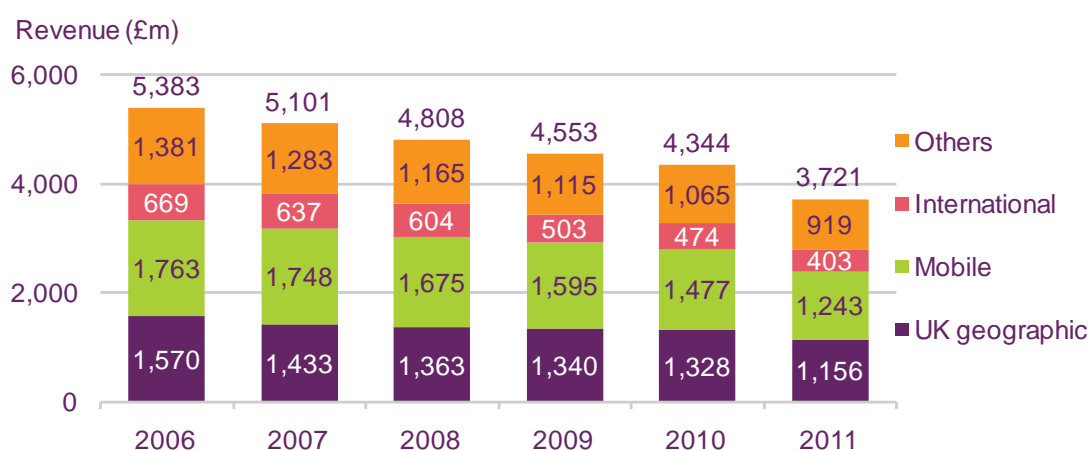
Source: Ofcom/operators

### Fixed voice revenue declines accelerated in 2011

We have already discussed the fact that call revenues have fallen by one-third since 2006. The rate of decline was higher from 2010 to 2011 (14.3%) than the compound annual growth rate from 2006 to 2011 (down by 7.8%). All call types saw declines of 12-16% in 2011 (Figure 5.28).

Calls to mobiles remain the largest component of fixed-call revenues, at 33.4% of the total. Calls to geographic numbers (such as those that start with 01 and 02) contributed 31.1% of the total. Despite the presence of some growing globalisation trends, international call revenue from fixed lines fell by £71m during 2011; from 10.9% to 10.8% of the total, despite broadly level volumes (see next section). Declining international call prices may be explained by the existence of alternative VoIP telephony services, such as Skype, which offer cheap international calls. Some telecoms operators have responded to these alternatives by offering their own low-cost bundles of international calls.

**Figure 5.28 Fixed voice revenues, by type of call**



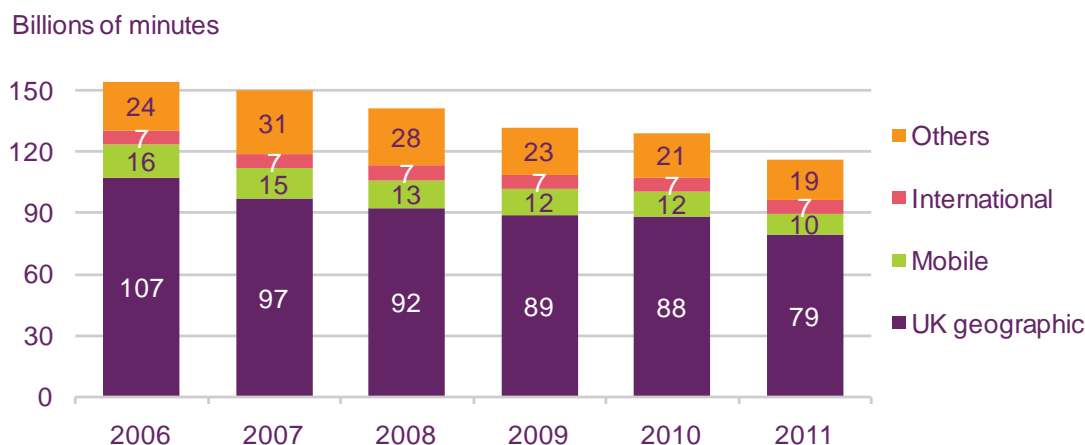
Source: Ofcom/operators

## Fixed voice volume declines also accelerated

Despite the fact that calls to mobile phones contributed the majority of revenue, they accounted for less than 9% of volume. Calls to geographic numbers accounted for over two-thirds of the volume of calls from fixed lines (Figure 5.29).

Volumes of fixed telephone calls fell by a compound annual growth rate of -5.55% from 2006 to 2011 and by -10.0% year on year in 2011. Calls to mobile decreased the most – both in terms of CAGR from 2006 to 2011 (-8.21%), and year on year (-12.04%).

**Figure 5.29 Fixed voice volumes, by type of call**



Source: Ofcom/operators

## Fixed broadband connections passed 20 million

The number of fixed broadband connections passed 20 million for the first time in 2011. Of these connections, nearly 78% were ADSL, 20% were cable and the remaining 2% were classed as 'other broadband' at the end of the year (Figure 5.30). 'Other broadband' includes fibre to the cabinet (VDSL services), fibre to the home or premises, fixed wireless and satellite broadband services. The proportion in the latter category increased during 2012 as BT upgraded lines to fibre to the cabinet (FTTC) and fibre to the home/premise (FTTH/P).

In 2011, the greatest increase in connections was on ADSL, with 930,000 net additions. Cable broadband's net additions were 90,000, though these were limited by the fact that cable is available to only half of the country's homes, and because five years ago it had the highest take-up of any broadband technology, so has less room to grow.

**Figure 5.30 Fixed broadband connections**



Source: Ofcom/operators

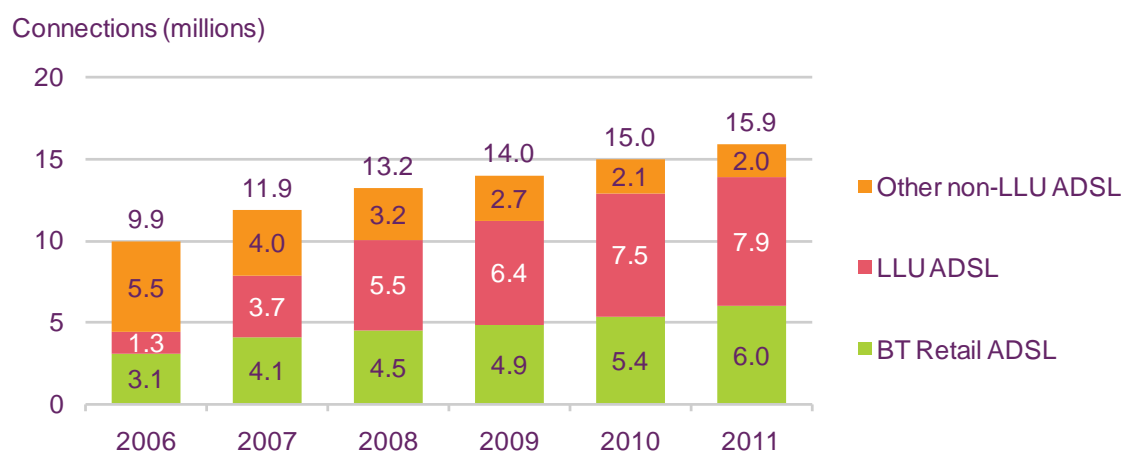
**In 2011, half of ADSL connections were unbundled**

In 2011, of the nearly 16 million active ADSL connections, almost exactly half were unbundled<sup>143</sup> – a similar figure to 2010 (Figure 5.31).

The number of unbundled lines increased from 2006 to 2011, although growth has slowed since 2008 as the market for broadband services has approached saturation. In 2006, just 1.3 million lines were unbundled, which was then 13% of all ADSL connections.

Over the same five-year period, the number of non-BT, non-unbundled lines has decreased to less than 2 million, or about one in eight ADSL connections, as the major ISPs have invested in local loop unbundling.

**Figure 5.31 Local loop unbundling connections**



Source: Ofcom/operators

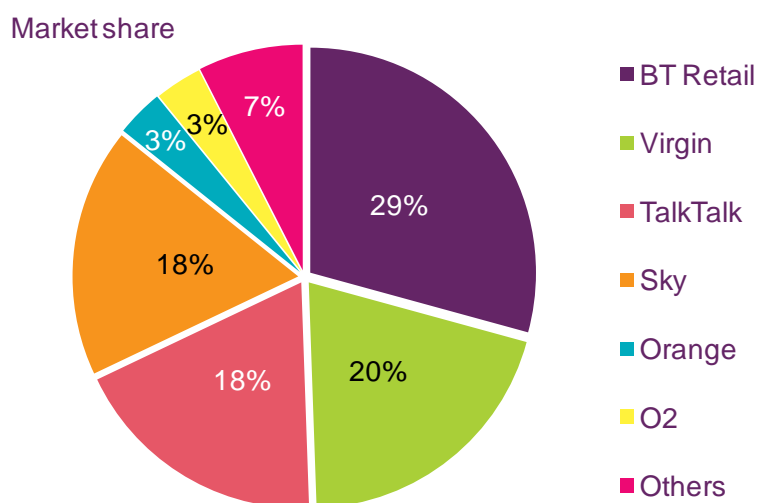
<sup>143</sup> Local loop unbundling is a regulated process whereby BT offers a competing internet service provider (ISP) access so that it can place equipment in a BT telephone exchange that gives the ISP control of customer’s copper broadband line and the service they receive. The terms of unbundling, including the price of access, are set by Ofcom.

## BT increased its fixed broadband market share in 2011

Although the number of unbundled lines has increased, BT also increased its share of retail ADSL lines, and of broadband lines as a whole. At the end of 2011, BT Retail had a fixed broadband market share of nearly 30%, up by one percentage point since 2010 (Figure 5.32).

Cable operator Virgin Media has the second-highest market share, while TalkTalk, in third place, lost ground to fourth-placed Sky. These four ISPs comprise the major fixed broadband players by subscriber numbers.

**Figure 5.32 Fixed broadband market share**



Source: Ofcom/operators

## The number of superfast fixed broadband connections quadrupled

In the 12 months to May 2012, the proportion of fixed broadband connections that were classified as 'superfast' – that is, the headline speed was at least 30Mbit/s – increased from 2% to 8%. In the same period, the proportion of broadband connections that had a headline speed of over 10Mbit/s increased from 47% to 68%, and the proportion of connections offering a headline speed of 8Mbit/s or less decreased from 2% to 1% (Figure 5.33).

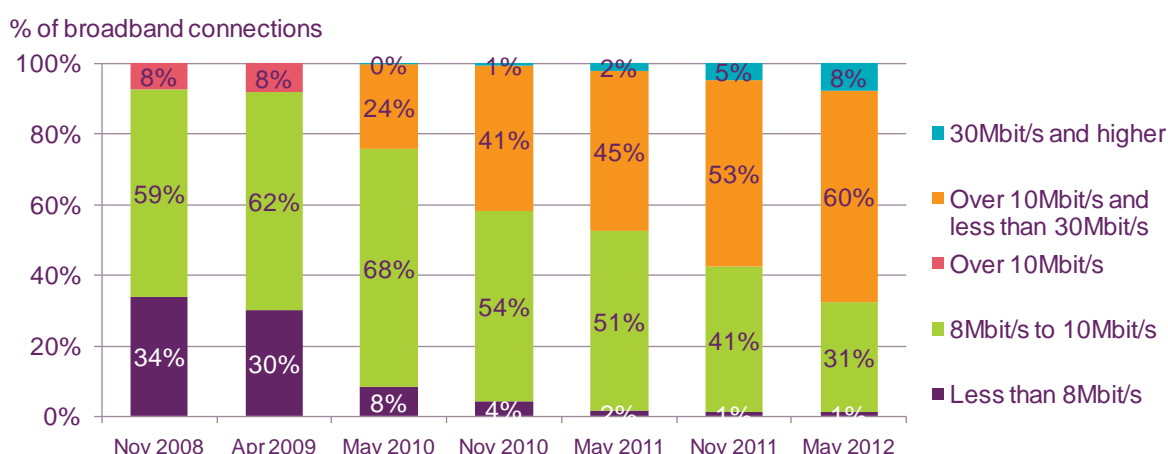
The increase in superfast broadband connections is the result of a migration of some of Virgin Media's subscribers to faster services and the increasing take-up of VDSL services, most commonly BT Infinity.

At the time of publication, the average fixed broadband speed for May 2012 was not available. However, data from November 2011 showed an increase in actual broadband speed: this had risen to 7.6Mbit/s from 6.8Mbit/s in May 2011.

### Defining broadband speed

*Headline speeds* are the theoretical speed of the connection; these speeds have historically been used in advertisements by operators. *Actual speeds* (otherwise called *actual throughput*) are the speeds experienced by the subscriber. Actual speeds are slower than headline speeds because of technical factors, including distance from the exchange: the further a subscriber is from their exchange, the slower their broadband speed will be.

**Figure 5.33 Fixed broadband connections by 'up to' headline speed**



Source: Ofcom/operators. Excludes business connections.

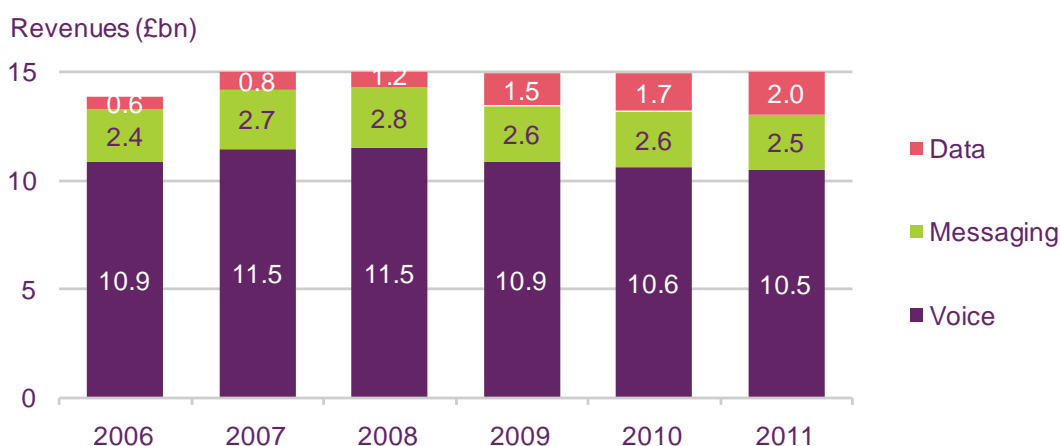
## 5.2.4 Mobile markets

### Mobile revenues increased, driven by growth in data use

For the first time in three years, mobile retail revenue increased in 2011, going up by 1.0%. Data revenues increased by 17.7%, while messaging revenues fell by 2.6% and voice revenues by 0.9% (Figure 5.34). These figures reflect rapidly-increasing data use and falling voice use by mobile subscribers. Messaging volumes increased in 2011; the fall in messaging revenues shows a marked fall in revenue per message, which is related to the availability of tariffs that include large numbers of inclusive messages.

Voice accounted for less than 70% of mobile revenues in 2011, down from just over 78% in 2006. Data accounted for 14%, up from 4% five years previously, while messaging accounted for 17%, down from 18%. (The sum does not total 100% because of rounding).

**Figure 5.34 Mobile retail revenue, by voice, messaging and data**



Source: Ofcom/operators

## Mobile call revenues continued to fall, but revenue from subscriptions rose

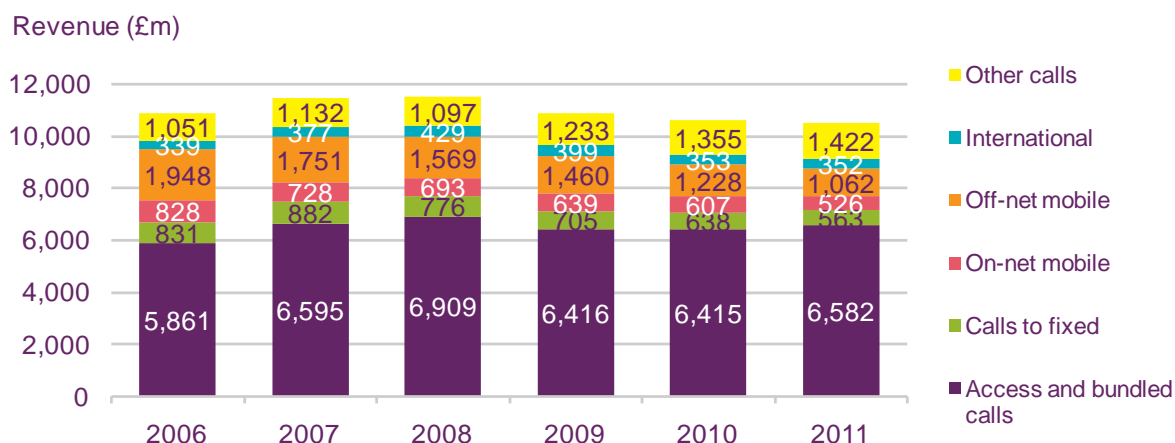
Retail voice revenues fell for three consecutive years from 2008 to 2011, as did revenue from calls to geographic numbers (such as those beginning 01 and 02), calls to on-net and off-net mobiles and revenue from international calls. For some of these categories, revenue declines had also occurred in previous years.

However, revenue from subscriptions, and the bundled minutes, messages and data that come with those subscriptions, increased in 2011 by 2.6% (Figure 5.35).

In 2011, subscriptions accounted for 63% of retail voice revenue, up from 54% in 2006. Calls to mobiles are the second largest element, at 15% (down from 26% in 2006), with calls to fixed lines worth just over 5% and international calls worth 3% of retail voice revenue.

The volume of international calls from mobile phones has increased, so the slight decrease in international call revenue may be a reflection of the reduction in international call prices from most of the mobile network operators. Furthermore, some MVNOs have widely-marketed competitive international calling rates as low as 1 penny per minute.

**Figure 5.35 Mobile retail revenue, by type of call**



Source: Ofcom/operators

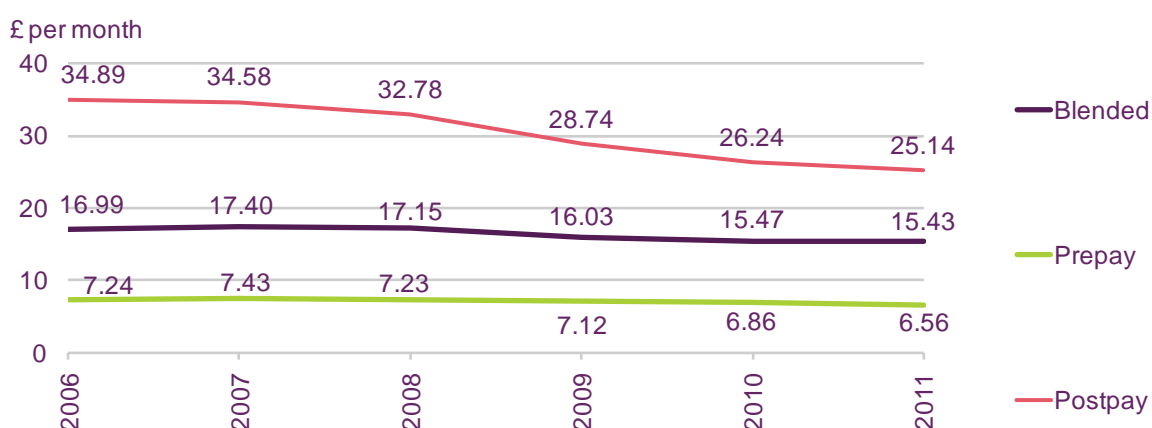
## Mobile average revenue per user declined slightly amid post-pay migration

With a small increase in both retail revenue and the subscriber base during 2011, blended average revenue per user (ARPU) decreased by 4p per month to £15.43. ARPU for pre-pay subscribers and ARPU for post-pay subscribers both fell to a larger extent: down by 30p and £1.10 per month respectively (Figure 5.36).

The overall figure did not decrease as much as the pre-pay and post-pay figures, because of the migration of higher-spending pre-pay customers to lower-end post-pay tariffs.



**Figure 5.36 Mobile average revenue per user**



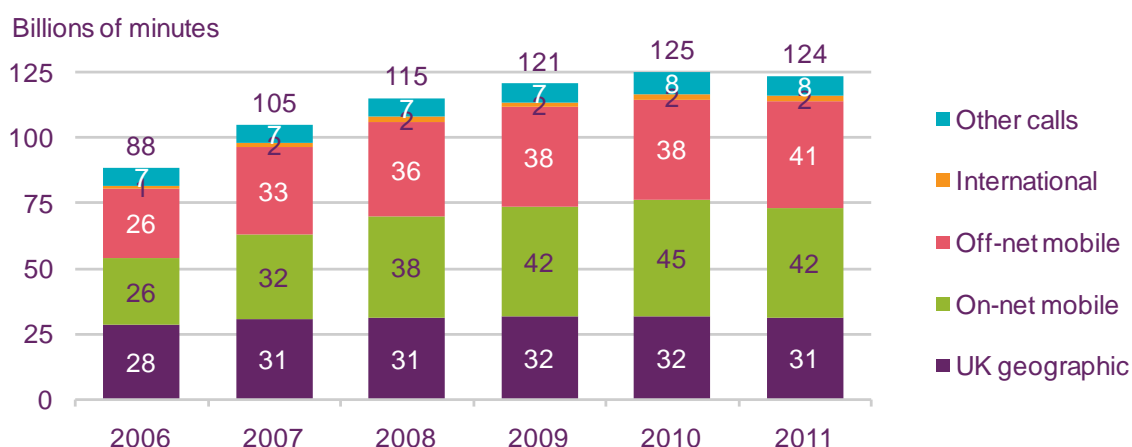
Source: Ofcom/operators. Blended refers to all subscribers – prepay and postpay.

### The volume of calls dropped, but off-net and international call volumes increased

As mentioned above, the volume of outgoing mobile minutes fell by 1.1% in 2011: the first year it has declined. Calls to geographic numbers fell by 1.9% in 2011, while the volume of on-net calls (calls to the same mobile network) reduced by 6.6%. The decline in on-net calls was nearly equalled by an increase in off-net calls. The increase in the proportion of mobile calls that are off-net is a reflection of the fact that most mobile tariffs no longer offer cheaper on-net calls. International call volumes increased by 1.7% (Figure 5.37).

Despite the trend from on-net to off-net calling, the greatest proportion of outgoing mobile minutes are still to mobile phones on the same network, accounting for just over one-third of outgoing mobile minutes. International calls comprise less than 2% of total outgoing mobile calls.

**Figure 5.37 Outgoing mobile minutes, by type of call**



Source: Ofcom/operators

### Call volumes from pre-pay subscribers fell by a fifth

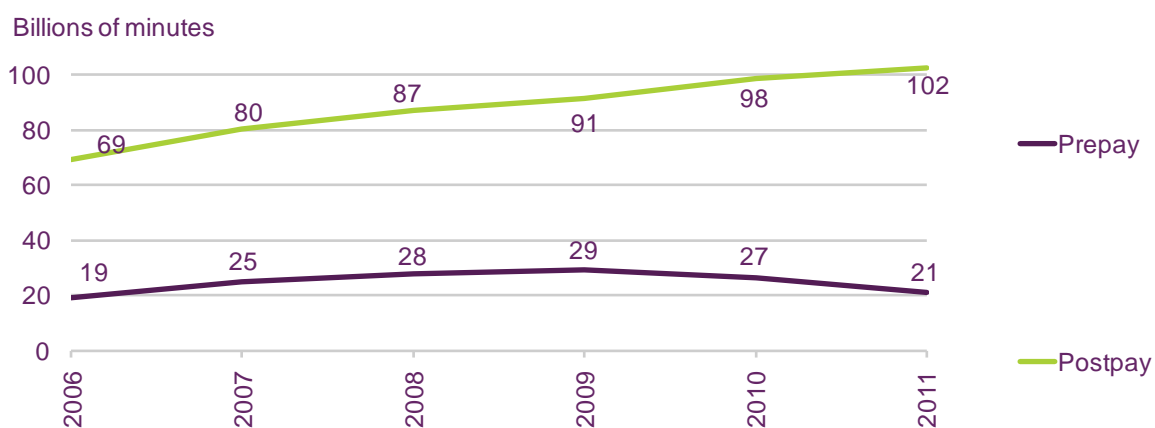
The volume of calls made by subscribers on pre-pay tariffs fell sharply in 2011; down 20.1% to 21.2 billion minutes. 2011 was the second consecutive year in which the volume of pre-

pay minutes fell, and the decline in 2011 was faster than in 2010. The number of minutes per pre-pay subscriber fell by about one-seventh during 2011 (Figure 5.38).

In contrast, during 2011 the number of minutes of calls made by subscribers on post-pay tariffs increased by 4.0%. These divergent trends are partly due to the migration of some subscribers from pre-pay to post-pay tariffs, many of whom are likely to have been among the highest pre-pay users of voice calls.

Some of the changing dynamics of the mobile voice market are discussed in a Key Market Development at the top of this section.

**Figure 5.38 Volume of mobile voice minutes, by pre-pay and post-pay subscribers**



Source: Ofcom/operators

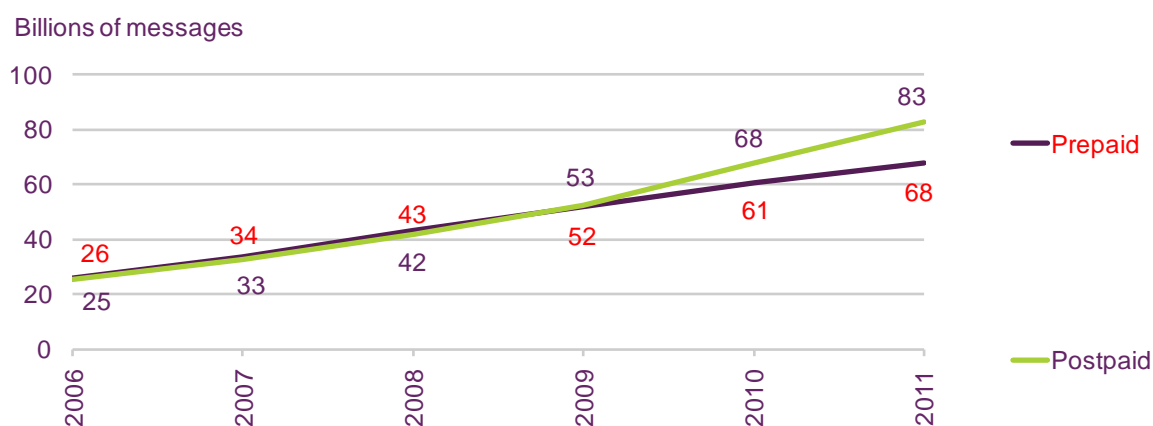
### Text message volumes grew by over one-sixth in 2011

The volume of SMS messages (often known as ‘text messages’) sent in 2011 increased by 17.3% compared with 2010, a slight slowing on the compound annual growth rate for the period 2006-2011 of 24.1%. The total volume of SMS messages sent exceeded 150 billion in 2011 (Figure 5.39).

SMS messages sent by post-pay subscribers increased in volume by 22.3% during 2011, compared with 11.7% for pre-pay subscribers, in contrast to the trend from 2006-2009 which showed a similar proportion of increase for pre-pay and post-pay volumes. This differential is likely to be due to the migration of users from pre-pay to post-pay deals – a trend that accelerated from 2009-2011 - and also the large, or unlimited, bundles of SMSs available on many post-pay tariffs. 2009 saw the highest number of pre-pay connections and pre-pay minutes; both of which have since declined each year since then. Fifty-five per cent of SMS messages were sent by post-pay subscribers in 2011.

Other drivers for the increasing number of SMSs sent across both pre-pay and post-pay bases include the increasing penetration of smartphones, from which it is quicker to send an SMS than from a feature phone, and the apparent substitution of voice for SMS.

**Figure 5.39 Volumes of SMS messages sent**



Source: Ofcom/operators

### Mobile data and machine-to-machine (M2M) led mobile connection growth in 2011

While growth in the number of mobile subscribers and of mobile broadband subscribers started to slow, two other mobile segments continued to grow rapidly.

Firstly, a rapidly increasing number of mobile subscribers accessed the internet via their mobile device. According to Ofcom's market research in the first quarter of 2012, 40% of mobile users said they accessed the internet via their mobile device, implying that there were 32.6 million subscribers accessing the internet on their mobile devices (Figure 5.40). The corresponding figure in the first quarter of 2009 was 11%, or 8.4 million.

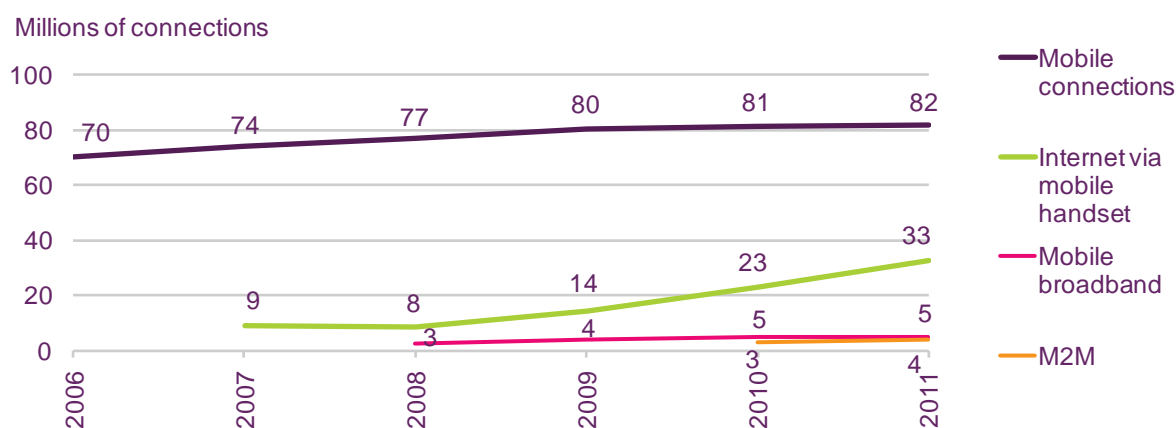
The trend of increased smartphone data use reflects the growing penetration of smartphones, faster mobile networks, more mobile-internet savvy users and more mobile-friendly websites and web-based resources.

The number of machine-to-machine (M2M) mobile connections provided by mobile operators also increased quickly, up 24% year on year according to Ofcom's figures. Mobile operator-supplied M2M was equivalent in number to 4% of the UK's mobile connections as at September 2011.

#### Machine-to-machine communications (M2M)

'Machine-to-machine communications' in this report refers to wireless communications between machines, rather than between people. This is a new area in the ICT industry that is growing in importance in terms of connections and revenues. It includes areas such as smart metering, connection of audio-visual and personal multimedia devices, telemetry, road traffic control, remote security monitoring, smart office equipment and the management of vehicle fleets. More details on the top M2M applications in 2011 can be found in the section with Figure 5.43.

**Figure 5.40 Number of mobile connections**



Source: Ofcom/operators and Ofcom market research.

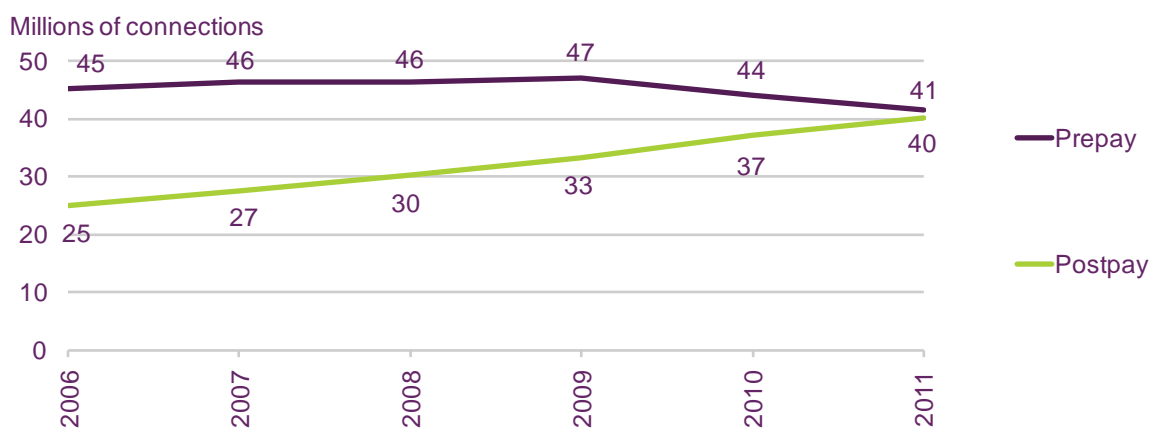
Note: 'Mobile broadband' connections and 'internet via mobile handset' connections are included in the figure for 'Mobile connections'. M2M connections are reported separately. 'Internet via mobile handset' does not count mobile users who access services such as email or social networking via their mobile device but who do not browse the web. Internet via mobile handset figures are collected in the first quarter of the following year. M2M figures are for September of the stated year.

### The proportion of subscribers on post-pay tariffs increased to nearly half

Since 2006, the total number of contract subscribers, and the percentage of subscribers who are on contract tariffs (as opposed to pre-pay) has risen steadily. In 2011, nearly half of all mobile subscribers (49.2%) were on a contract – 3.0 million more than a year previously. At the same time, 2.6 million fewer subscribers were on pre-pay (Figure 5.41).

Many operators have tried to encourage migration from pre-pay to contract because contract subscribers tend to spend more than pre-pay subscribers. Offers of a free smartphone plus large quantities of bundled minutes, texts and data have persuaded many subscribers to convert to a contract tariff, while the cost of some pre-pay handsets may also have acted as a driver for this migration.

**Figure 5.41 Number of mobile connections, by pre-pay and post-pay**

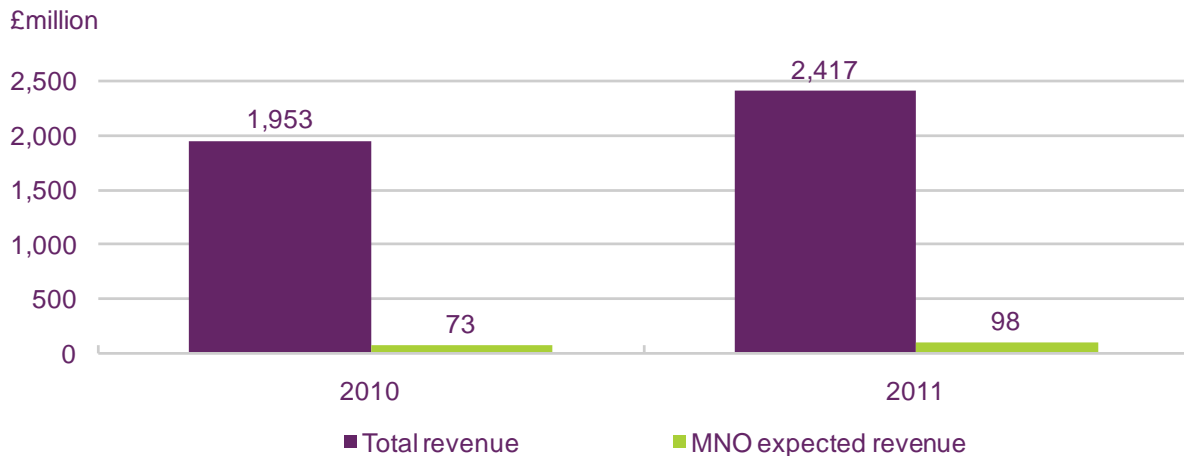


Source: Ofcom/operators

## M2M revenues increased by nearly a quarter in 2011

According to industry analyst firm Machina Research, revenues from M2M exceeded £2.4bn in 2011, a 24% increase compared with 2010 (Figure 5.42). Mobile network operators (MNOs) are predicted to realise a small proportion of these revenues, according to Machina Research. The firm said that just 4% of M2M revenues were achieved by mobile network operators (MNOs) in 2011 – itself a small increase on 2010. The remaining revenues were attributable to a wide range of other types of company including product manufacturers and IT services suppliers.

**Figure 5.42 Machine-to-machine (M2M) revenue**



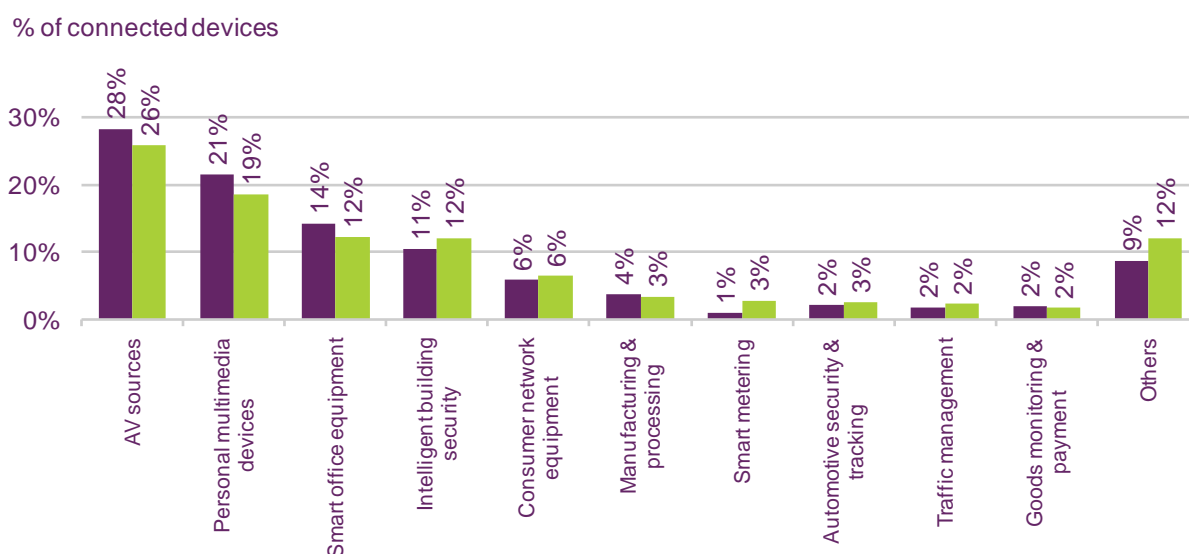
Source: Machina Research: M2M Global Forecast and Analysis

## Audio-visual, personal multimedia and smart metering spurred M2M growth

The number of M2M connections increased by nearly 18% during 2011, according to Machina Research; lower than the rate of revenue growth, suggesting an increase in revenue per connection. Machina Research calculated that at the end of 2011, there were 32.6 million devices connected by M2M, up from 27.7 million at the end of 2010.

Figure 5.43 shows the top ten M2M applications in the UK. The most common application by number of connections is in consumer electronics: audio-visual sources (which accounts for over a quarter of the UK's M2M connections), followed by personal multimedia (with nearly one-fifth of connections) and smart office equipment (which includes printers and other multi-functional devices, at 12%). The fastest-growing application in the top ten is smart metering, with 244% year-on-year growth. One of the largest type of users of smart metering is energy companies, which install meters in consumers' homes to provide real-time energy readings to the supplier via the mobile network.

**Figure 5.43 Machine-to-machine (M2M) connections, by application**



Source: Machina Research: M2M Global Forecast and Analysis

## 5.2.5 Business markets

### Businesses shed fixed phone lines in 2011 but signed up to broadband

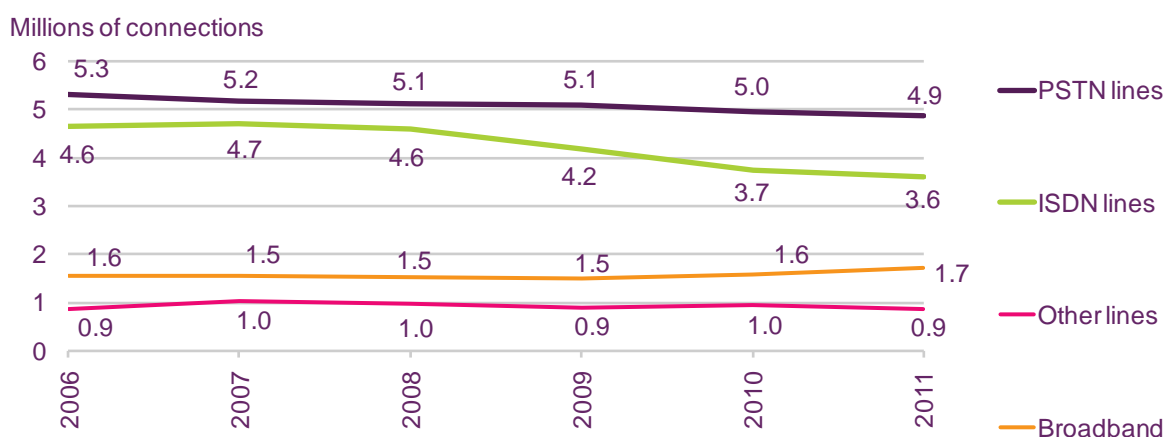
The number of business fixed lines (excluding broadband) decreased for the fourth consecutive year in 2011, falling 3.1% to 9.4 million (Figure 5.44). The total number of PSTN lines and the total of ISDN lines both fell, in contrast to the number of residential PSTN lines, which rose slightly during the year.

Three factors are likely to have contributed to the decline in the number of business fixed lines: a trend for businesses to discontinue lines for workers who work remotely or in more of a mobile environment, decreased employment levels as a result of difficult economic conditions, and the increased use of IP-based backhaul for business telephony.

Businesses subscribed to just under one-sixth of PSTN lines in 2011. The category 'other lines' included Centrex, which locates the business's telephone switch in the service provider's network.

In contrast, the number of business broadband subscriptions increased by 8.8% in 2011, taking the total to 1.7 million. Businesses subscribed to one in twelve broadband lines in 2011.

**Figure 5.44 Business fixed voice and fixed broadband connections**



Source: Ofcom/operators

### Mobile broadband proved popular with businesses

Businesses are adopting mobile broadband in greater proportions than consumers, according to Ofcom data. At the end of 2011, businesses subscribed to an estimated 1.4 million mobile broadband connections; equivalent to 13% of business mobile connections. This compared with 3.7 million consumer mobile broadband connections, equating to 5% of consumer mobile connections. The business market share of mobile broadband connections was 27% at the end of 2011.

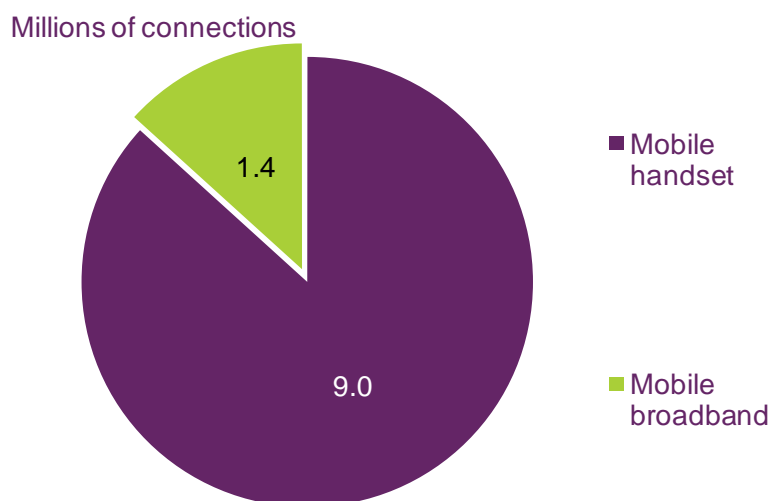
This greater usage of mobile broadband may be due to the increasing number of employees wishing to access company data services on the move and the increasing proportion of employees using a laptop.

Mobile operators are also offering a broad range of low-price mobile broadband deals for businesses. These vary considerably by contract length and size of bundle. Some tariffs are positioned to allow mobile broadband to be either a regular or back-up service, which may suit different business usage requirements.

Business tariffs start from around £10 per month, depending on the quantity of data required. Some operators are also offering business-specific roaming tariffs that are considerably cheaper than consumer offerings.

At the end of 2011, businesses subscribed to 10.4 million mobile connections, including mobile broadband – equivalent to one in eight mobile connections (Figure 5.45).

**Figure 5.45 Business mobile handset and mobile broadband connections: December 2011**



Source: Ofcom/operators

### Consumer broadband technology was used by the majority of business customers

Over two-thirds (69%) of UK businesses use cable broadband, ADSL or mobile broadband for their telecoms connections<sup>144</sup>, according to Ofcom's *Business Connectivity Services Review*<sup>145</sup>, carried out in the summer of 2011. These came ahead of ISDN (56%) and leased lines (42%), as shown in Figure 5.46.

Cable broadband, ADSL and mobile broadband are also in common use among consumers, in contrast to ISDN and leased lines<sup>146</sup>, which have historically been used by businesses.

The growing use of consumer technologies by businesses is likely to be driven by their broad availability and low price, which may make them desirable for smaller businesses and those which are particularly cost-conscious. ISPs also provide business variants of these services that offer lower contention and a higher guarantee of quality, along with better support than consumer tariffs. Contract lengths are often shorter with these technologies compared to leased lines. Signing up for leased lines may also incur large up-front costs, particularly for businesses in rural areas. This is less often the case for DSL, cable and mobile broadband.

Ethernet<sup>147</sup> is replacing analogue as the basis for leased lines, with over one in five businesses (21%) currently having an Ethernet leased line. Ethernet is popular with some

<sup>144</sup> These connections are also known as Wide Area Networks, or WANs, and the purpose of them is to connect business sites to other sites within the same business and/or to the internet.

<sup>145</sup> Ofcom's *Business Connectivity Services Review* is published at <http://stakeholders.ofcom.org.uk/binaries/consultations/business-connectivity/annexes/business-review.pdf>. The business connectivity market research study interviewed 461 companies with ten or more employees.

<sup>146</sup> Leased lines are a symmetric telecommunications line connecting two or more locations that are paid for by monthly rent (hence the term lease). Typically, leased lines are used by businesses to connect geographically distant offices. Unlike dial-up connections, a leased line is always active.

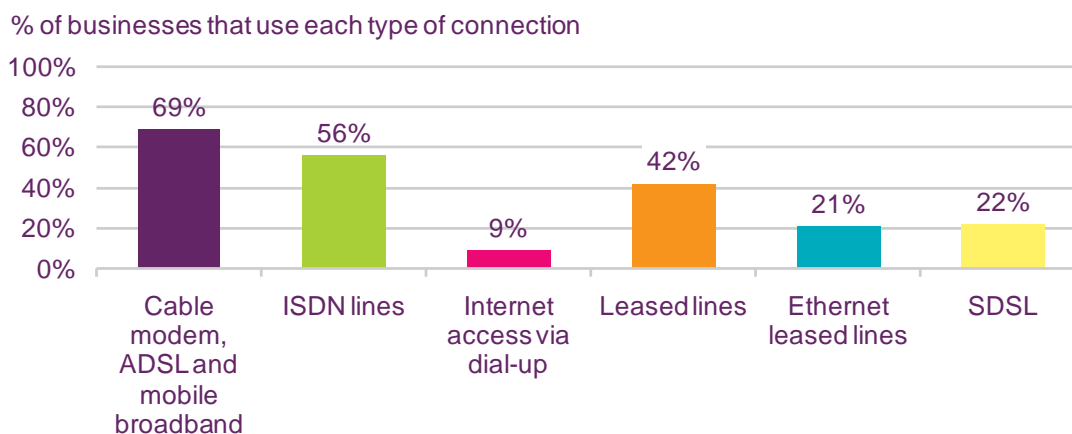
<sup>147</sup> The term 'Ethernet' covers a family of network technologies that are frequently used to carry data over businesses' local area networks. However, these technologies have now been adopted to link business sites together and are sometimes favoured over competing technologies for reasons of cost and similarity to local area network technology.



businesses because of its technical similarity with local area networking – making it an appropriate technology to link different offices - and because of its ease of upgrading to the speed required.

Nearly one in ten businesses (9%) still used a dial-up internet connection. In the case of retailers, some of these connections are likely to be used for payment systems. Some businesses rely on different types of connections for different sites or for different applications.

**Figure 5.46 Type of wide-area network connectivity used by businesses**



Source: Ofcom Business Connectivity Services Review

### Voice, internet and video traffic were the top apps carried by business connections

In terms of business connectivity use, several applications were used most frequently by the businesses interviewed for Ofcom's *Business Connectivity Services Review*. The highest levels of use over businesses' telecoms connections were for email and internet access, with 96% naming this as a use.

Access to enterprise applications including CRM (customer relationship management) or ERP (enterprise resource planning) or other business information sources also featured highly (77%).

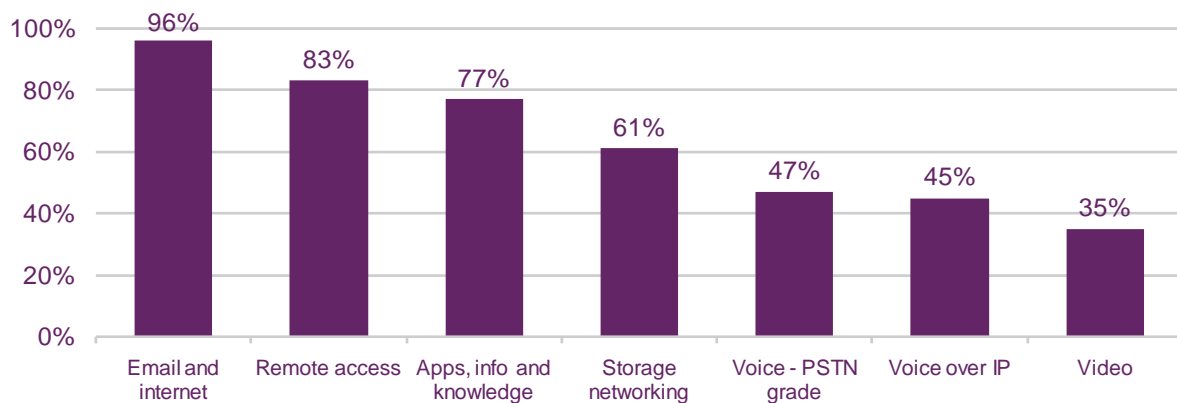
Businesses were also using their connections for storage networking (61%), as opposed to making on-site back-ups. This may be driven by more cost-effective data centre services, faster connections and a greater awareness and concern with business continuity.

Video communications were also rapidly taking off among some businesses, with 35% of firms saying they used their connection for video (Figure 5.47). Applications include video conferencing and collaboration and business-to-employee broadcasts.

Voice – whether packetised (running over internet protocol) or not – was a more predictable use of businesses' telecoms connections.

**Figure 5.47 Applications used over businesses' wide area network connections**

% of businesses that use each application over their wide area connection(s)



Source: Ofcom Business Connectivity Services Review

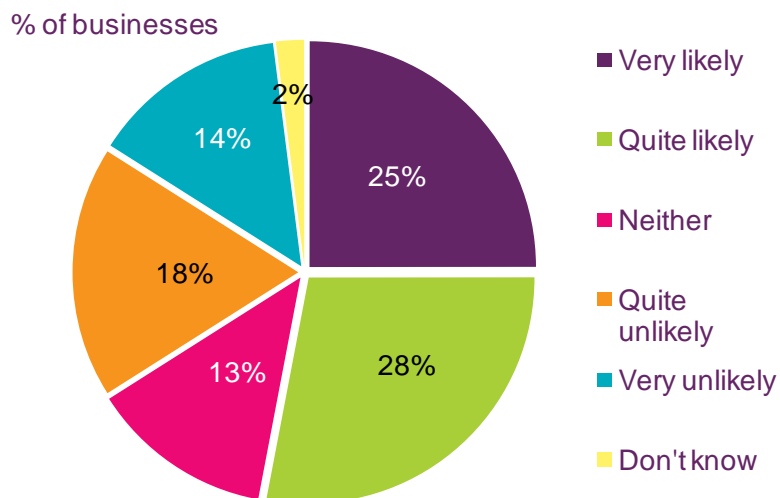
### Businesses considered swapping traditional connections for superfast broadband

Ofcom asked in the research for its *Business Connectivity Services Review* if respondents would consider swapping their current connection for a superfast broadband connection, such as VDSL, fibre to the premises or superfast cable broadband. These technologies are also in widespread use by consumers.

Consumer superfast broadband connections are faster than some business connections and sometimes also cheaper, although they may offer lesser guarantees of performance in terms of uptime, throughput or delay, even in their business variants.

Businesses were not asked about the timeframe over which they would be willing to switch or given information on the possible impacts on other service features of changing from their current connection type. But with faster broadband speeds becoming available, over half (53%) of businesses said they were either very or quite likely to consider switching, with around one in seven (14%) stating switching was 'very unlikely' (Figure 5.48).

**Figure 5.48 Likelihood that superfast broadband will prompt switching from current services**

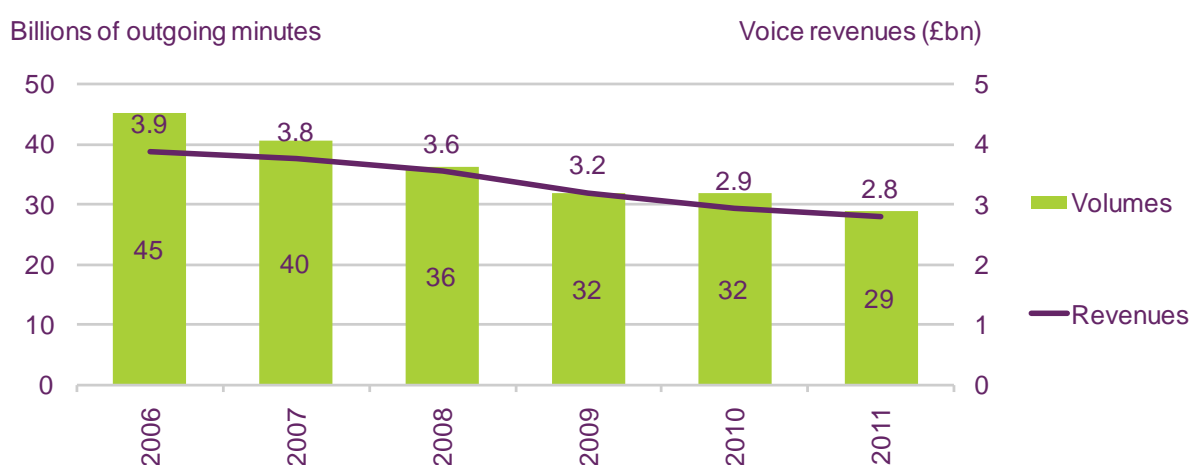


## Businesses cut back on making fixed phone calls in 2011

The volume of business fixed voice calls decreased sharply in 2011; down 9.1% to just under 29 billion minutes (Figure 5.49). This is a much faster rate of reduction than the decline in the number of business PSTN lines, which was down by 1.7%, which indicates that use per business line is also rapidly decreasing. The number of outgoing voice minutes per business line was 253 minutes per month in 2011, little than the 236 minutes per month for residential PSTN lines.

Revenues from business fixed voice fell by 4.8% during 2011 and by a cumulative 28% between 2006 and 2011.

**Figure 5.49 Business fixed voice volumes and revenues**



Source: Ofcom/operators. Excludes NTS.

## Next-generation data services attracted greater expenditure

The revenue story is very different for business data services; being split between declining legacy services like frame relay<sup>148</sup>, ATM<sup>149</sup> and older leased-line technologies, and newer services on which more is being spent by businesses, such as Ethernet, IP VPNs<sup>150</sup> and web hosting<sup>151</sup> services. The net effect on our total of business data services revenue was an increase during 2011 of 4.9%, taking the total to £3.6bn (Figure 5.50).

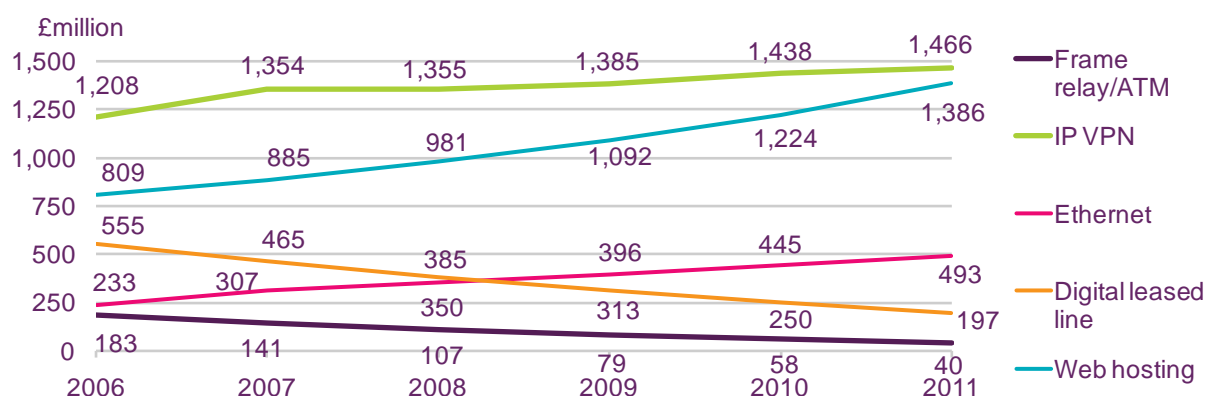
<sup>148</sup> Frame relay is a packet-switched technology that was widely used to carry data across networks that connect business sites. It was commonly used over ISDN networks.

<sup>149</sup> ATM, or Asynchronous Transfer Mode is a cell-based switching technique that was designed for high-throughput real-time wide area networks connecting business sites.

<sup>150</sup> An IP VPN is a service using internet protocol provided on a public telecommunications network that provides businesses with secure inter-site connections emulating those of a private network.

<sup>151</sup> Web hosting services refer to the hosting of data in data centres by providers, including dedicated data centre operators and telecommunications operators and managed services related to this hosting.

**Figure 5.50 Corporate data services revenue, by type of connectivity**



Source: IDC

### Businesses invested in web conferencing to drive greater worker collaboration

Spending on conferencing products and services was also one of the growth business telecoms markets, with UK businesses spending £324m in 2011 (Figure 5.51). This figure increased by 5.3% compared with 2010, according to analyst firm Ovum. Conferencing divides into three categories:

- Audio conferencing (a phone call between two or more people made through an external bridge)
- Web conferencing (a real-time internet-based activity where two or more people share information and are able to speak to each other – popular examples include Cisco Webex and Microsoft LiveMeeting)
- Video conferencing (a video call between two or more people and sites made through an external bridge)

All of these categories saw additional use because of greater remote and mobile working, according to Ovum. Improving technology and greater awareness of collaboration and conferencing technologies have also attracted more businesses to these services, the analyst firm reported.

Most expenditure was on audio conferencing<sup>152</sup>, but this fell by 1.5% during 2011 amid price reductions. As the newest technology to be invented, web conferencing<sup>153</sup> was the fastest-growing area of the three, with revenues up 22% in 2011. Video conferencing<sup>154</sup> grew by 6.8%, driven largely by corporate spending on a high-end technology called telepresence<sup>155</sup>,

<sup>152</sup> The audio conferencing figures from Ovum are based on calls in managed and automated audio conferences.

<sup>153</sup> The web conferencing figures from Ovum are based on licences and per-minute charges.

<sup>154</sup> The video conferencing figures from Ovum include the price of video calls, where they are chargeable, the cost of video conferencing hardware and video conferencing services.

<sup>155</sup> Telepresence is a set of high-end video conferencing technologies that are intended to give meeting participants the impression that they are in the same room as the participants at the other site(s). Telepresence usually involves the provision of a room dedicated to video conferencing, life-size or near life-size images, close eye contact and high quality audio and video. The term telepresence is used by Ovum to apply to the technology and not the products of specific suppliers.

and also by managed video services, which are provided to businesses by telecoms operators, among other suppliers.

**Figure 5.51 Audio, web and video conferencing revenue**



Source: Ovum: Audio and Web Conferencing Services, Volume and Revenue Forecast and Ovum: Enterprise Business Video Forecast.

## 5.3 The telecoms user

### 5.3.1 Introduction

In this section we look at the major consumer trends in the use of telecoms services over the past six years. The analysis in this section is based on data received from telecoms providers as part of our regular data collection programme, our own consumer research, and third-party suppliers, and focuses solely on the residential sector.

The section is split into four main areas: the first provides an overview of the general trends in take-up and spend on telecoms services, while the second and third focus on developments in fixed voice and fixed broadband services. The final part looks at trends in the use of mobile voice and data services on mobile handsets, as well as the use of mobile broadband services.

The key findings of this section are as follows:

- **Average monthly household spend on telecoms services fell by 4.4% in 2011.** UK households spent an average of £65.04 a month on telecoms services, £3.02 less than in 2010. This equated to 3.0% of average total household spend, down from 3.2% in the previous year (page 331).
- **A third of people aged 16 to 24 lived in homes where mobiles were the sole form of telephony in Q1 2012.** This proportion was more than twice the 15% average across all adults, and the figure among 25-34 year olds was also high, with over a quarter (26%) living in a mobile-only household (page 350).
- **More than three-quarters of UK homes had a broadband connection in Q1 2012.** Seventy-six per cent of UK homes had a fixed or mobile broadband connection in Q1 2012, with most of these (84%) relying solely on fixed broadband, an increase of six percentage points compared to Q1 2011 (page 332).
- **The average monthly time spent using a PC/laptop to access the internet at home increased by 1.3% to 13.9 hours per month in the year to March 2012.** Slowing growth in home PC/laptop internet use is likely to be a result of the increasing use of tablets and smartphones to access the web (page 335).
- **The cost of a basket of residential fixed voice services fell by 2.3% in 2011.** The real monthly cost of a basket of residential fixed voice services (comprised of a fixed line and call usage at average 2011 levels) fell by 2.3% to £21.65 in 2011 (page 336).
- **The average cost of making a mobile voice call fell to broadly the same level as a fixed voice call in 2011.** The average cost of a mobile-originated voice call in 2011 was 8.5 pence per minute, just 0.3 pence per minute (3.1%) more than the 8.3 pence per minute average for fixed-originated voice calls (page 332).
- **Household fixed broadband take-up growth is being driven by younger and older consumers.** Ofcom research indicates that the main drivers behind the growth in the proportion of UK households with a fixed broadband connection, to 72% in the year to Q1 2012, was increased take-up among the 16-24 and the 65-74 age groups (page 342).

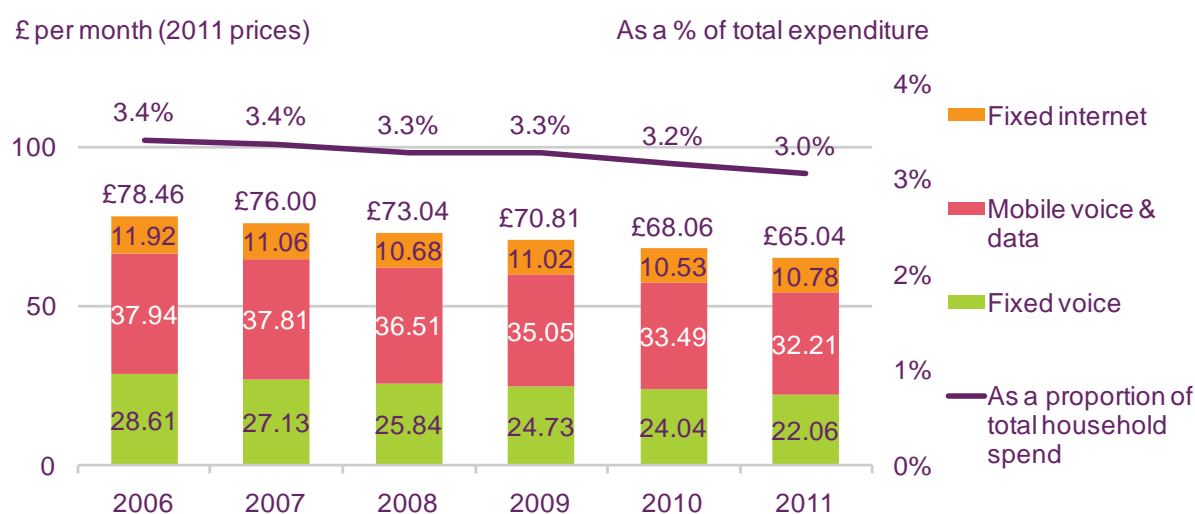
- **Average mobile-originated voice call volumes per person fell for the first time in 2011.** An average of 164 minutes of mobile-originated calls were made per person per month in the UK, three minutes less than in 2010. This was the first time that per-capita mobile voice use in the UK had fallen (page 351).
- **Growth in smartphone take-up resulted in increasing use of mobile data services in the year to Q1 2012.** The average time spent using mobile data services was 2.1 hours a month in 2011, 25 minutes per month (24.7%) more than in 2010 (page 354).
- **People in the UK sent an average of 200 SMS and MMS messages per month in 2011.** The average number of text and picture messages sent per UK inhabitant continued to increase in 2011, growing by 17% to 200 messages per month (page 352).
- **Almost half of new mobile contracts were for less than £20 a month in Q1 2012.** In the first quarter of 2012, 49% of new mobile contracts had a monthly rental fee of less than £20, 12 percentage points more than a year previously and 43 percentage points more than five years earlier (Q1 2007) (page 349).

#### **Average monthly household spend on telecoms services fell by 4.4% in 2011**

In 2011 UK households spent an average of £65.04 a month on telecoms services, £3.02 (4.4%) less than in 2010 (Figure 5.52). This equated to 3.0% of average total household spend, down from 3.2% in the previous year. The largest decline in average household spend in 2011 was a £1.98 (8.2%) a month fall in fixed voice spend, to £22.06, which was as a result of falling average call volumes per line and came despite a 120,000 increase in the number of residential lines.

Average monthly household spend on mobile services fell by £1.28 (3.8%) to £32.21 in 2011 as a result of declining prices and falling call volumes per connection. Average household spend on fixed internet services increased by 24 pence (2.3%) to £10.78 a month during the year, as a result of continued growth in the number of residential broadband connections and the slowing rate at which the average cost per connection is falling, as consumers switch to higher-speed services (see Figure 5.64).

**Figure 5.52 Average household spend on telecoms services**



Source: Ofcom / operators / ONS

Notes: Includes estimates where Ofcom does not receive data from operators; adjusted to RPI; includes VAT.

### There was little difference between the average cost of fixed and mobile voice call minutes in 2011

The average cost of a mobile-originated voice call in 2011 was 8.5 pence per minute, just 0.3 pence per minute (3.1%) more than the 8.3 pence per minute average for fixed-originated voice calls (Figure 5.53). In comparison, five years previously the average mobile-originated voice call minute had cost 12.3 pence per minute, 5.3 pence per minute (76.6%) more than the average fixed-originated voice call minute.

The average cost of both fixed and mobile voice call minutes increased in 2011, with the average cost of a fixed-originated voice call minute increasing by 7.0% (0.5 pence per minute). The increase in the average cost of a mobile-originated voice call minute was much smaller than that of a fixed-originated minute, at 0.3% (less than 0.1 pence per minute), and was in part due to increasing pre-pay prices as providers attempted to migrate customers onto monthly contracts in order to increase average spend and reduce churn.



**Figure 5.53 Comparison of average fixed and mobile voice call charges**



Source: Ofcom / operators

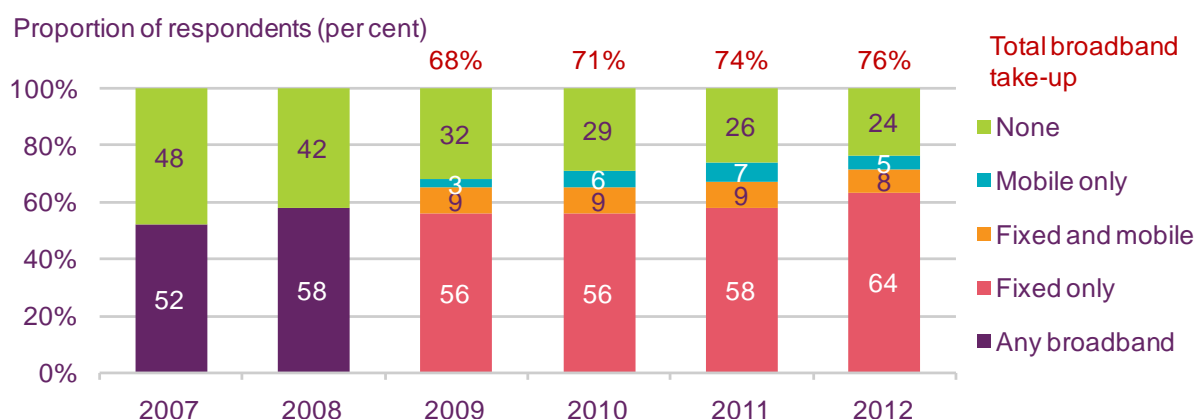
Note: Includes estimates where Ofcom does not receive data from operators; fixed calculation excludes non-geographic voice calls.

**More than three-quarters of UK homes had a broadband connection in Q1 2012**

Ofcom research suggests that overall household broadband take-up (which includes both fixed and mobile connections) was 76% in Q1 2012, in line with the figure for Q1 2011 (Figure 5.54). Five per cent of respondents said that they lived in a home where mobile broadband was the sole broadband connection in Q1 2012, down from 7% a year previously. This may reflect increased use of bandwidth-hungry services such as *BBC iPlayer*, as the lower data caps and average speeds provided by mobile broadband services are, in many cases, not conducive to the use of these services.

Most homes (64%) relied solely on fixed broadband, an increase of six percentage points since Q1 2011, while the proportion of respondents who said they lived in a home which used both fixed and mobile broadband was unchanged over the period, at 8%.

**Figure 5.54 Household penetration of fixed and mobile broadband**



Source: Ofcom research, data as at Q1 of each year  
Base: All adults aged 16+

## Fixed broadband take-up increased in the year to Q1 2012

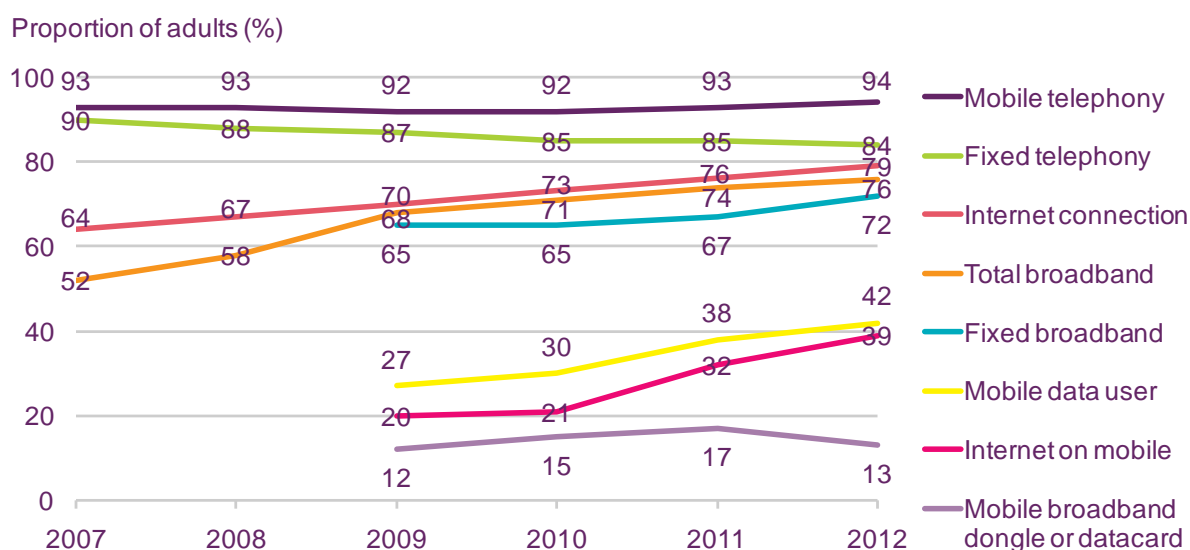
As mentioned previously, our research shows that 76% of UK homes had either a fixed or a mobile broadband connection, or both, in Q1 2012, in line with the figure recorded in Q1 2011 (Figure 5.55). This was a result of the five percentage point increase in take-up of fixed broadband services, to 72%, being offset by a four percentage point fall in the proportion of adults who said that they, or someone in their home, used mobile broadband services via a datacard or dongle (which here excludes access via a smartphone) to 13% over the same period.

The fall in mobile broadband take-up recorded in Q1 2012 may be due to sampling errors, as figures collected from the mobile providers show continued growth in the number of residential mobile broadband connections, albeit at a greatly reduced rate.

Overall broadband take-up was three percentage points lower than household internet take-up (79%) in Q1 2012, the difference being due to homes which solely used a mobile handset and/or narrowband dial-up services to connect to the internet (39% of respondents said that they, or someone in their house, used a mobile handset to access the internet in Q1 2012, an increase of seven percentage points compared to a year previously). Overall, 42% of respondents said that they, or someone in their house, used a mobile network to access the internet (either through a mobile handset or a mobile broadband dongle or datacard), up from 38% in Q1 2011).

Levels of household take-up of fixed and mobile telephony were unchanged in the year to Q1 2012, at 84% and 94% respectively.

**Figure 5.55 Household penetration of key telecoms technologies**



QE1: Does your household have a PC or laptop computer? / QE2: Do you or does anyone in your household have access to the internet/world wide web at home (via any device, e.g. PC, mobile phone etc)? / QE6: Which of these methods does your household use to connect to the internet at home?

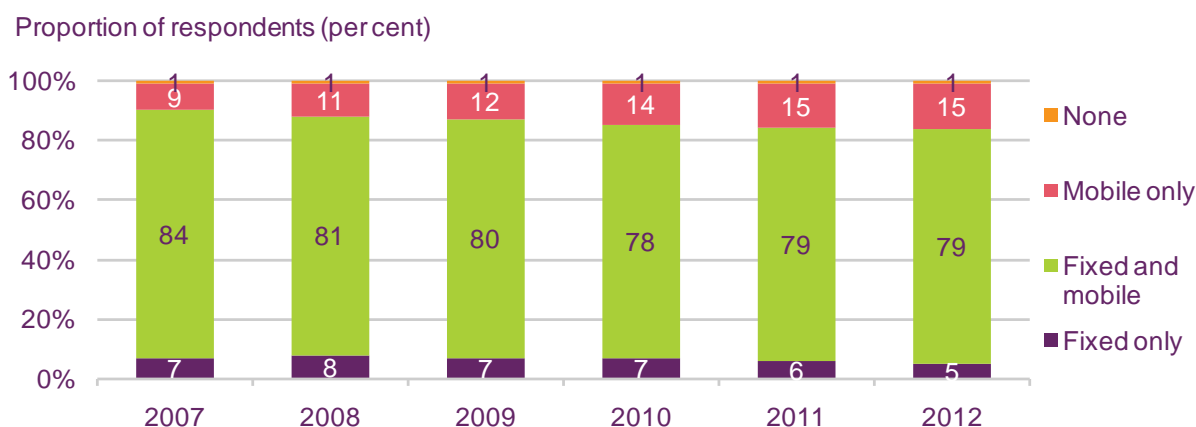
Source: Ofcom research, data as at Q1 of each year

Base: All adults aged 16+

## Fifteen per cent of UK homes used mobiles as their sole form of telephony in Q1 2012

Ofcom research indicates that most homes (79%) used both fixed and mobile telephony in Q1 2012, unchanged from a year previously (Figure 5.56). The proportion of people who said that they lived in a home where there was no landline, and where mobiles were the sole form of telephony, was also unchanged over the period at 15%, and was higher among the younger age groups (see Figure 5.76). Prior to Q1 2012, the proportion of homes that were mobile-only had been increasing slowly, and the end to this trend in 2012 may be related to falling mobile broadband use, and because most UK homes need a landline in order to be able to access fixed broadband services. Five per cent of respondents said that they lived in a fixed-only household in Q1 2012, while 1% lived in a home without either a fixed line or a mobile phone.

**Figure 5.56 Household penetration of fixed and mobile telephony**



Source: Ofcom research, data as at Q1 of each year

Base: All adults aged 16+

## Consumers spent more time using text-based communications services than making voice calls in 2011

In 2011 the average time spent per person making and receiving fixed and mobile voice calls was 10.5 hours per month, 23% less than the 13.7 hours total for average use of mobile messaging, mobile internet services and accessing email and member communities on a PC/laptop (Figure 5.57).

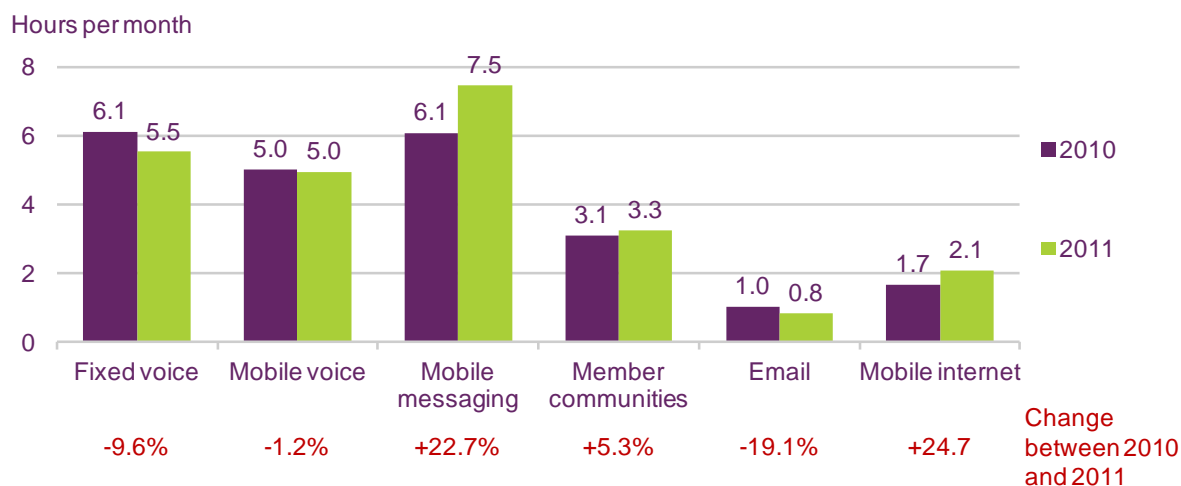
Average use of both fixed and mobile voice services fell in 2011, with the average time spent using fixed voice services falling by 9.6% (35 minutes) to 5.5 hours per person per month, and the average time spent using mobile voice services declining by 1.2% (four minutes) to 5.0 hours a month in 2011. Overall time spent on voice services has declines by 5.8%. These figures include both incoming and outgoing calls, so average fixed line use was higher than mobile use (Figure 5.25 shows that mobile-originated voice call minutes were higher than fixed-originated voice call minutes in 2011).

The average monthly time spent using mobile messaging services (which here include SMS, MMS and IM) increased by 1.4 hours per person (22.7%) to 7.5 hours per month in 2011. This was largely due to pay-monthly and pre-pay mobile tariffs including increasingly generous SMS allowances, and growth in the use of IM services (as is shown in Figure 5.82, Ofcom research suggests that 19% of mobile data users used IM services in Q1 2012, up from 13% a year previously). This was not, however, the highest percentage growth among the services included in the analysis below: the average time spent per person accessing the internet using a mobile network increased by 24.7% (25 minutes) to 2.1 hours per month in

2011, a result of rapid growth in smartphone take-up, which, according to Ofcom research, increased by 12 percentage points to 39% of adults in the year to Q1 2012.

While the average monthly time spent per person accessing member communities (e.g. Facebook, Blogger and Twitter), on a PC/laptop increased by 5.3% (10 minutes) to 3.3 hours per month in the year to March 2011, the average time spent using email on a PC/laptop fell by 12 minutes to 0.8 hours per month. Again, this decline is likely to be a result of increasing smartphone take-up, along with growth in the use of other web-enabled devices such as tablet computers.

**Figure 5.57 Average monthly time spent per person using telecoms services**



Source: Ofcom / operators / Nielsen / UKOM / comScore / Strategy Analytics

Note: Includes estimates where Ofcom does not receive data from operators; fixed voice call figures include NTS voice calls; mobile messaging figures are Ofcom estimates based on message volume data and Ofcom Digital Day research conducted in 2010; Ofcom estimate of member communities and email use per person is based on Nielsen's data on the average monthly time spent using these services at home and work on a PC/laptop including the use of applications in March of each year.

### 5.3.2 Fixed voice services

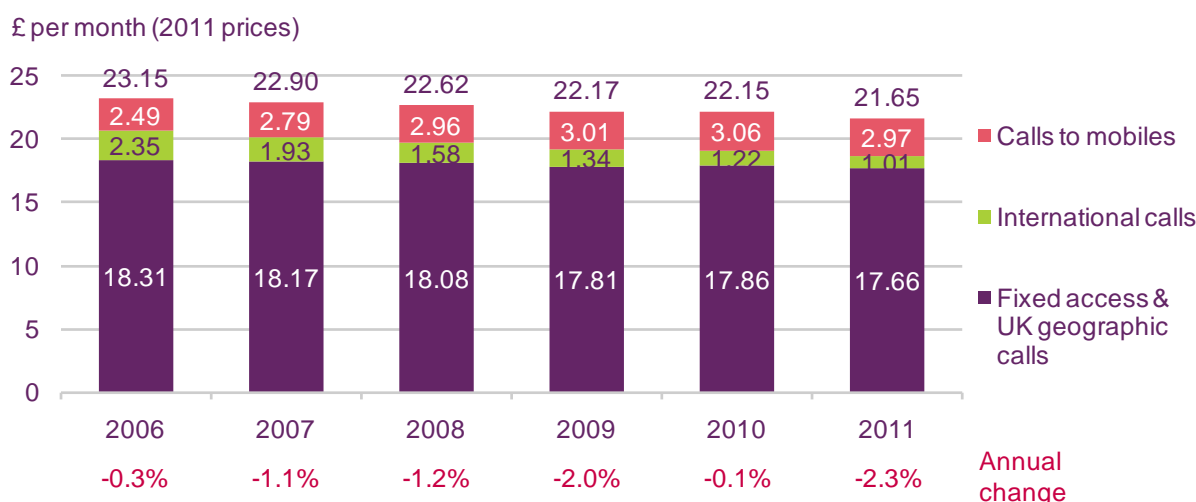
#### The cost of a basket of residential fixed voice services fell by 2.3% in 2011

In real terms (i.e. adjusted for inflation), our data finds that the monthly cost of a basket of residential fixed voice services (comprising a fixed line and UK geographic, international and calls to mobiles call minutes at average 2011 levels) fell by 2.3% (50 pence per month) to £21.65 during 2011 (Figure 5.58).

The largest fall, both in absolute and percentage terms, was a decrease of 21 pence per month (17.4%) in the cost of fulfilling the 16 minutes of international calls required by the basket, likely to be a result of falling prices as traditional telecoms providers compete with low-cost calling card and Voice over Internet Protocol (VoIP)-based services, and as heavier users of international calls purchase bolt-ons which provide either bundled international call minutes or reduce the cost of these calls.

Meanwhile, the real monthly cost of the fixed line rental and 204 minutes of UK geographic calls required by the basket fell by 20 pence (1.1%) to £17.66 and that of the 16 minutes of calls to mobiles element of the basket by nine pence a month (3.0%) to £2.97. The fall in the cost of the calls to mobile part of the basket will be partly due to reductions in mobile termination rates.

**Figure 5.58 Real cost of a basket of residential fixed voice services**



Source: Ofcom / operators

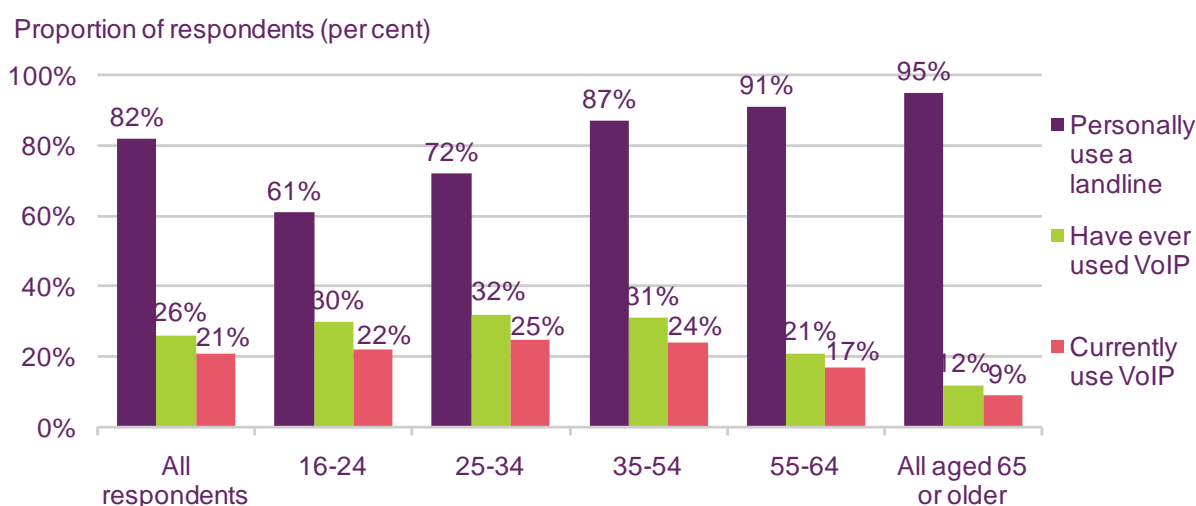
Note: Includes estimates where Ofcom does not receive data from operators; excludes non-geographic voice calls; adjusted for RPI; includes VAT

**The highest reported levels of Voice over Internet Protocol (VoIP) use were among 25-34 year-olds in Q1 2012**

Ofcom research in Q1 2012 indicates that levels of landline use within the home were lower among those aged 16 to 34 than the 82% average for all adults, and higher than average among those aged 35 and older. As shown in Figure 5.59, the highest level of use was among the 65+ age group, where 95% of respondents said that they personally used a landline at home, and lowest among the 16-24 age group, at 61%. Younger consumers appear to be relying on mobile services and using fixed services less as a result (see Figure 5.76).

Similarly, the proportion of respondents who reported that they had ever used Voice over Internet Protocol (VoIP) to make a phone call within the home was higher than average among the 25-34 age group, at 32%, and was lowest among the older age groups. The proportion of those aged 55+ who had ever used VoIP services was 12%, less than half the 26% average across all adults, and the proportion aged 65 and older who currently used VoIP (9%) was less than half the 21% average across all age groups. Lower VoIP use levels among older consumers are consistent with lower levels of PC ownership and broadband take-up.

**Figure 5.59 Use of fixed voice communication services in the home**

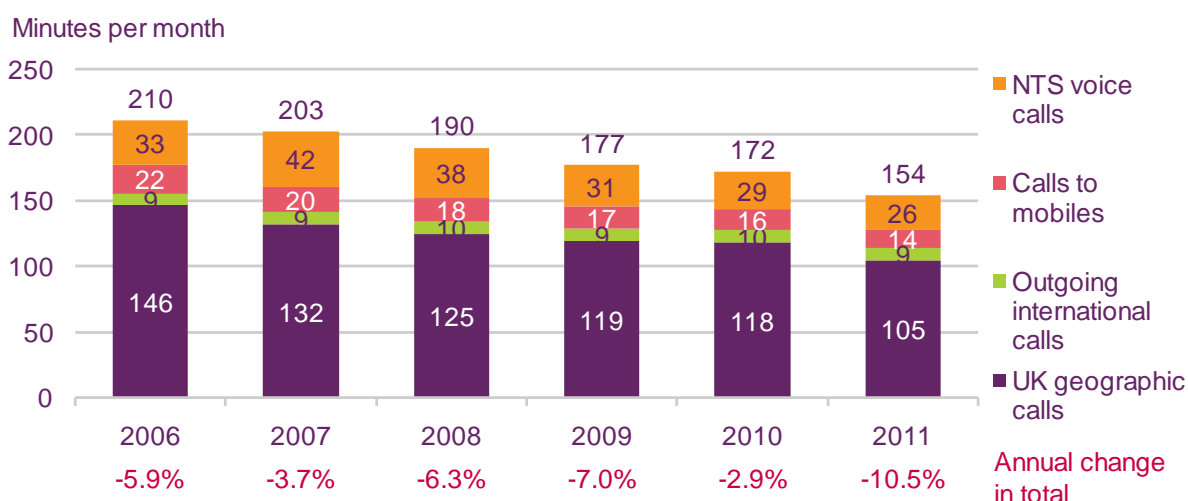


Source: Ofcom research, Q1 2012  
Base: All adults aged 16+

**The rate of decline in average fixed voice call use accelerated in 2011**

The average volume of outgoing fixed calls per person per month fell by 18 minutes (10.5%) to 154 minutes in the UK in 2011 (Figure 5.60). The volume of average calls per person fell for all non-NTS call types in 2011, with the rate of decline being lowest for international calls at 5.1%, and highest for calls to mobiles at 12.5%. The high rate of decline of calls to mobiles (and declining mobile-to-mobile call volumes) are partly attributable to increasing use of non-voice forms of communication: SMS text message volumes continued to increase in 2011 (up by 17%) and the growing take-up of smartphones enables more mobile users to use email and instant messaging services to communicate with each other (see section 5.1.4 for more details).

**Figure 5.60 Average monthly outbound fixed voice call volumes, per person**



Source: Ofcom / operators  
Note: Includes estimates where Ofcom does not receive data from operators

## Increasing line rental charges drove increasing fixed voice costs in 2011

As mentioned previously, the average cost of a fixed voice call minute (excluding NTS voice calls) increased to 8.3 pence in 2011. As is shown in Figure 5.61 below, the driver behind this increase was increasing average charges for UK geographic calls (up from 7.2 pence per minute to 8.0 pence per minute) as the average cost of calls to mobiles and outgoing international calls both fell during the year.

Separate analysis shows that the average cost of a UK geographic call, calculated excluding the line rental fee, was unchanged at 1.5 pence per minute in 2011, meaning that the increasing line rental fee was the cause of the increase in the average cost of a fixed-originated call minute. Line rental fees increasingly include bundled call minutes and call bolt-ons, which can reduce the cost of international calls and calls to mobiles, so for heavy users, increasing line rental charges are likely to have a downward effect on average per-minute call costs.

**Figure 5.61 Average per-minute fixed voice call charges**



Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators; UK geographic calls calculation includes line rental revenues

## Line rental pre-payment tariffs allow consumers to make significant savings

A significant development in fixed-line pricing in the last few years has been the introduction of line rental pre-payment tariffs, which are now available from three of the UK's largest residential fixed line providers: BT, TalkTalk and Sky (among others). As shown in Figure 5.62 below, stand-alone fixed telephony line rental prices continued to increase in the year to March 2012, as providers tried to maintain revenue levels in a market characterised by falling lines and call volumes, and the average price increase across the tariffs listed below was 7% in nominal terms during the period.

Against this background, line rental pre-payment tariffs (which involve a customer paying twelve months' line rental in advance) enable those consumers who are able to do so to make significant savings compared to paying on a monthly basis<sup>156</sup>, and the average saving for the BT and TalkTalk tariffs below was over 20% in March 2012.

<sup>156</sup> Where they continue to take the service for the full minimum period of the contract.

**Figure 5.62 Analysis of stand-alone fixed-line tariffs**

Provider	2011			2012		
	With weekend calls	With evening and weekend calls	With anytime calls	With weekend calls	With evening and weekend calls	With anytime calls
BT	£13.60 (£10.00)	-	£18.60 (£15.00)	£14.60 (£10.75)	£17.75 (£13.90)	£19.50 (£15.65)
TalkTalk	-	£15.91 <sup>1</sup>	£18.51	-	£17.41 <sup>1</sup> (£13.11) <sup>1</sup>	£20.01 (£15.71)
Virgin	-	£16.99 <sup>2</sup>	£20.99 <sup>2</sup>	-	£18.50 <sup>2</sup>	£21.90 <sup>2</sup>

Source: Pure Pricing UK Broadband Pricing Briefing, March 2011 and March 2012

Notes: All tariffs exclude activation charges and promotional discounts and include VAT; all tariffs are the lowest price available; contract lengths vary; figures in brackets require prepayment of twelve month's line rental; <sup>1</sup> also includes anytime calls to TalkTalk landlines; <sup>2</sup> also includes calls to Virgin Mobile mobiles

### Satisfaction with fixed-line services remained high in Q1 2012

Overall levels of satisfaction with UK fixed-line services remained high in the year to Q1 2012, with Ofcom research suggesting that 89% of consumers with a fixed line at home were either 'very' or 'fairly' satisfied with their service in Q1 2012, unchanged from a year previously (Figure 5.63).

**Figure 5.63 Overall consumer satisfaction with residential fixed-line services**

Proportion of all adults with service (per cent)



Source: Ofcom research, data as at Q1 of each year

Base: All adults aged 16+ with a fixed line phone

Note: Includes only those who expressed an opinion

### 5.3.3 Fixed broadband services

#### The average cost of a fixed broadband connection stabilised in 2011

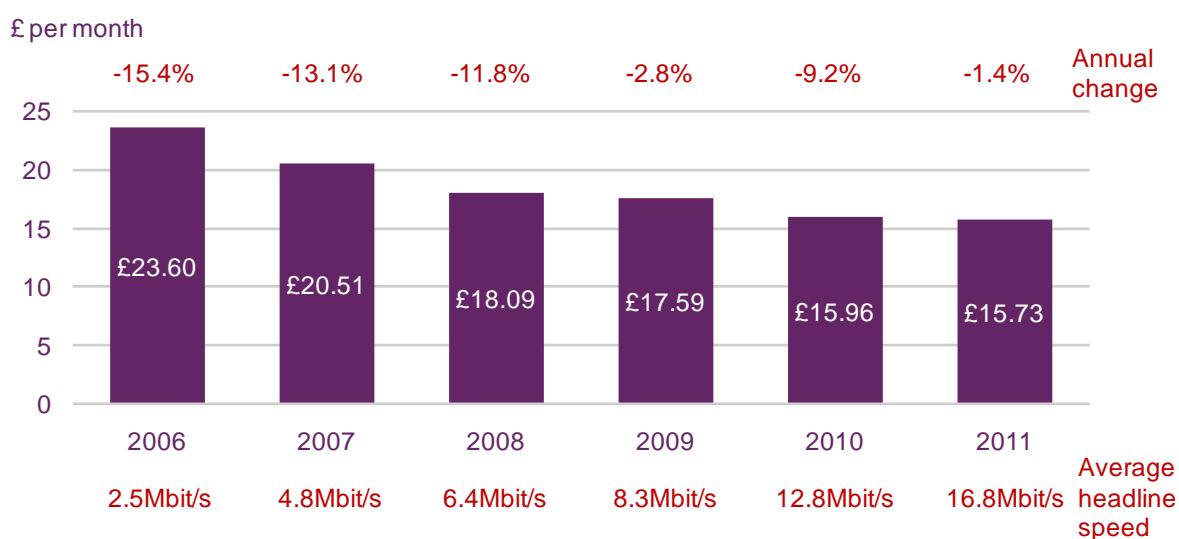
The average monthly cost of a UK residential fixed broadband connection fell by 1.4% to £15.73 during 2011, a significant slowing in the rate at which broadband prices had been declining, given that the average fall over the previous four years had been over 9% (Figure 5.64). Over the past few years the main driver behind the falling average cost of a residential fixed broadband connection has been increasing take-up of low-cost bundled LLU-based



DSL services (in the five years to 2011 the proportion of all fixed broadband connections that were provided using LLU increased from 10% to almost 40%).

While the average cost of a residential fixed broadband connection fell in 2011, the average headline speed increased by 4.0Mbit/s (32%) to 16.8Mbit/s, as consumers moved onto higher-speed packages, including superfast services (those with a headline speed of ‘up to’ 30Mbit/s or more). Ofcom research shows that the average actual UK residential broadband speed in November 2011 was 7.6Mbit/s, up from 6.2Mbit/s in November/December 2010, an increase of 1.4Mbit/s (22%).<sup>157</sup>

**Figure 5.64 Estimated average monthly cost of a residential fixed broadband connection**



Source: Ofcom / operators

Note: Data are based on operator allocations of revenues for bundled services and should be treated with some caution; includes estimates where Ofcom does not receive data from operators

### Few providers offer fixed broadband as a standalone service

Figure 5.65 summarises the lowest-cost residential fixed broadband services available from eight of the UK’s largest residential broadband providers in March 2012. Of these ISPs, only Virgin Media offered a fixed broadband service which did not require the consumer to purchase line rental separately, and AOL Broadband and O2 were the only providers which offered broadband services that could be purchased on a stand-alone basis (i.e. without the requirement to also take fixed voice services from the same supplier), although a BT landline was required to use these services.

<sup>157</sup> <http://stakeholders.ofcom.org.uk/market-data-research/other/telecoms-research/broadband-speeds/?a=0>

**Figure 5.65 Lowest-cost fixed broadband options from major suppliers, March 2012**

Provider	Fixed broadband only	Fixed broadband and calls	Fixed broadband and fixed line	Fixed broadband and mobile	Fixed broadband and pay-TV	Fixed broadband, fixed line and mobile	Fixed broadband, fixed line and pay-TV
AOL	£15.31 <sup>1</sup>	10.20 <sup>1</sup>	£20.30	-	-	-	-
BT	-	-	£28.60 (£24.75)	-	-	-	£28.60 (£24.75)
O2	£13.50 <sup>1</sup>	-	£26.50	£8.50 <sup>1,2</sup>	-	£21.50 <sup>2</sup>	-
Orange	-	-	£23.50	-	-	£18.50 <sup>2</sup>	-
Plusnet	-	£6.49 <sup>1</sup>	£19.48 (£15.98)	-	-	-	-
Sky	-	-	£22.25 (£19.95)	-	-	-	£32.25 (£29.95)
TalkTalk	-	-	£20.30 (£16.00)	-	-	-	-
Virgin Media	£22.50	-	£28.40	£22.50 <sup>2</sup>	£36.50	£28.40 <sup>2</sup>	£33.90

Source: Pure Pricing UK Broadband Pricing Briefing, March 2012

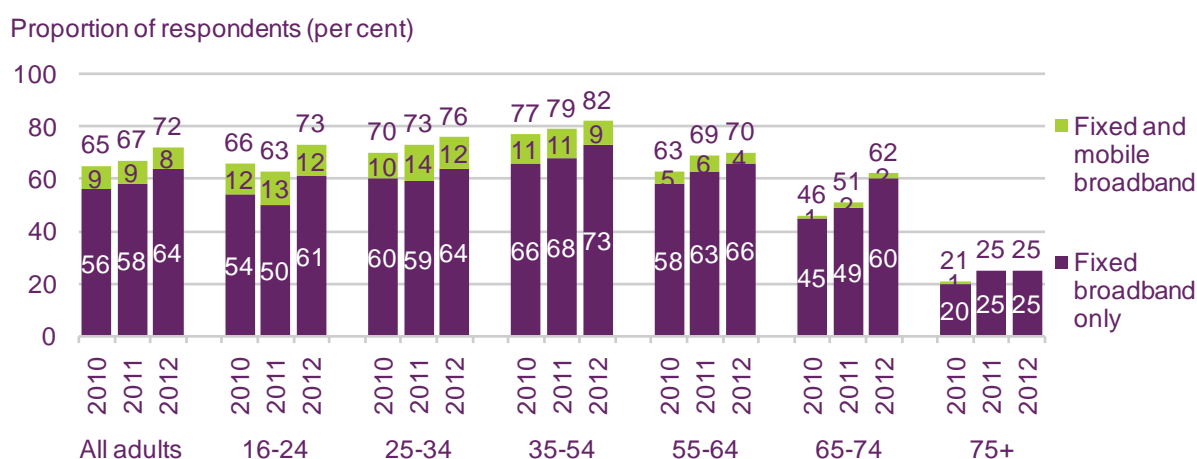
Notes: All tariffs exclude activation charges and promotional discounts and include VAT; all tariffs are the lowest price available, contract lengths vary; allowances for fixed-line and mobile calls, plus availability of TV channels included within packages may differ by operator and option; figures in brackets require pre-payment of twelve month's line rental; <sup>1</sup> also requires BT fixed line rental at £14.60 a month / £129 pre-payment for a year; <sup>2</sup> plus cost of mobile tariff.

### Household fixed broadband take-up growth is being driven by younger and older households

Ofcom research indicates that the main drivers behind growth in the proportion of UK households with a fixed broadband connection (which increased to 72% in the year to Q1 2012) were increased take-up among the 16-24 and 65-74 age groups (Figure 5.66).

While overall household fixed broadband take-up increased by five percentage points over this period, the increases among 16-24 year olds and 65-74 year olds were ten and nine percentage points respectively. The highest take-up levels in Q1 2012 were in the 35-54 age group, where an average of 82% of respondents had a fixed broadband connection, in line with the figure reported in Q1 2011.

**Figure 5.66 Household take-up of fixed broadband, by age**

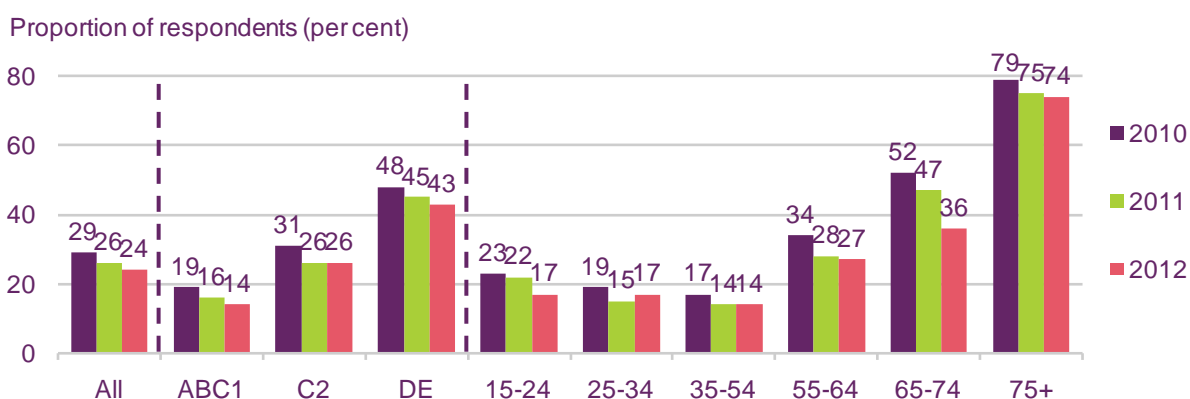


Source: Ofcom research, data as at Q1 of each year  
 Base: All adults aged 16+

**Older and less affluent consumers were less likely to have a home broadband connection in Q1 2012**

Figure 5.67 shows the proportion of people who said that they did not have a broadband connection of any description (i.e. either fixed or mobile), split by socio-economic profile and age group. This shows that levels of non-ownership of broadband services were higher than average among the older age groups and in less affluent homes (43% of respondents in DE homes said that they did not have a broadband connection in Q1 2012, compared to the UK average of 24%). It was only among those aged 65-74 that the proportion without broadband fell in the year to Q1 2012, from 47% to 36%.

**Figure 5.67 Non-ownership of broadband, by socio-economic group and age**



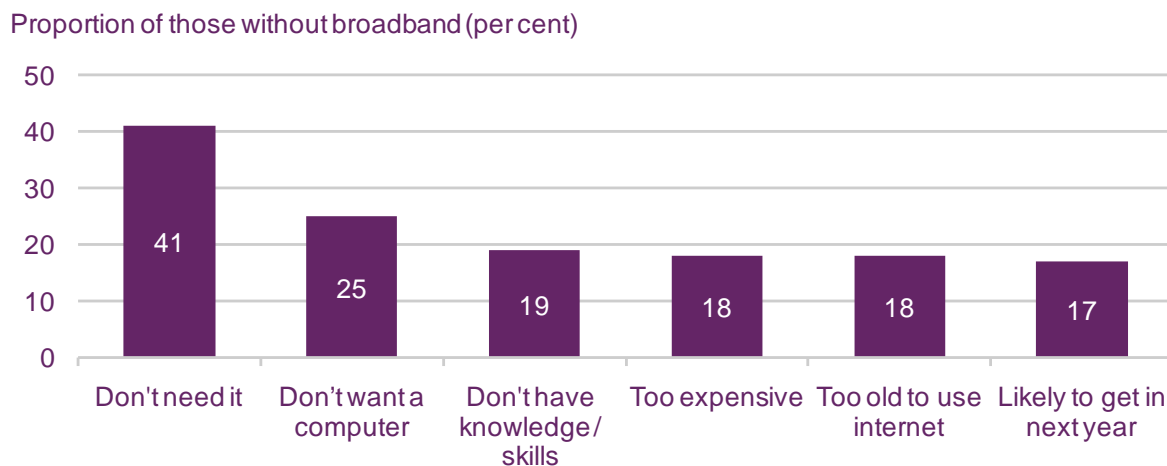
Source: Ofcom research, data as at Q1 of each year  
 Base: All adults 16+

**Over 40% of people without a home broadband connection do not see the need for it**

In Q1 2012 the most commonly-cited reason for not having a home broadband connection (mentioned by 41% of those without the service) was that they did not see the need for one (Figure 5.68). The second most frequently-mentioned reason (by a quarter of those in non-broadband households) was that they did not want to own a computer.

Nineteen per cent of respondents without home broadband said that they did not have the skills or knowledge to use the internet, while 18% said that a broadband connection was too expensive (the same proportion who said that they were too old to use the internet). Seventeen per cent of those without home broadband said that they were likely to purchase the service in the next twelve months.

**Figure 5.68 Main reasons for not having a home broadband connection**



Source: Ofcom research, Q1 2012

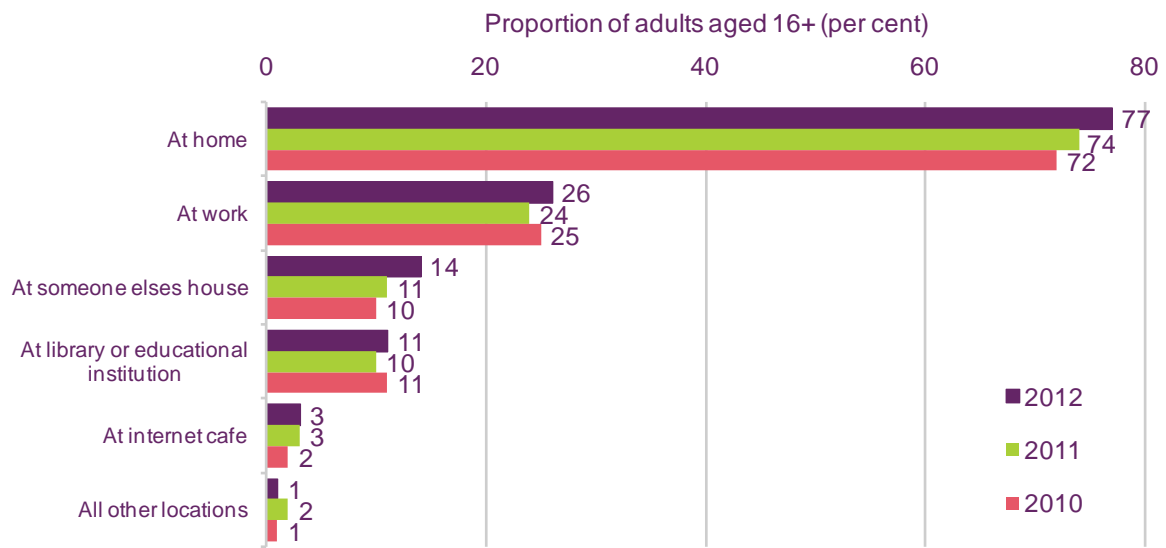
Note: 6% of people without the internet did not know what their main reason was or provided an 'other' reason

Base: All adults without the internet aged 16+

### **Eighty-one per cent of UK adults said that they used the internet in Q1 2012**

Ofcom research conducted in the first quarter of 2012 suggested that 81% of adults were internet users (Figure 5.69). This was four percentage points higher than the proportion of people who said that they accessed the internet at home (77%) as some consumers, including those without a home internet connection, access the web only outside the home. Among those adults who used the internet, over a quarter (26%) accessed it at work, while 14% did so at someone else's house. The proportion of internet users who said that they used internet cafes was low, at just 3%, unsurprising since over three-quarters of homes now have a broadband connection and 39% of adults have a smartphone from which they can access the web.

**Figure 5.69 Location of internet access**



In total 81% of UK adults used the internet in Q1 2012

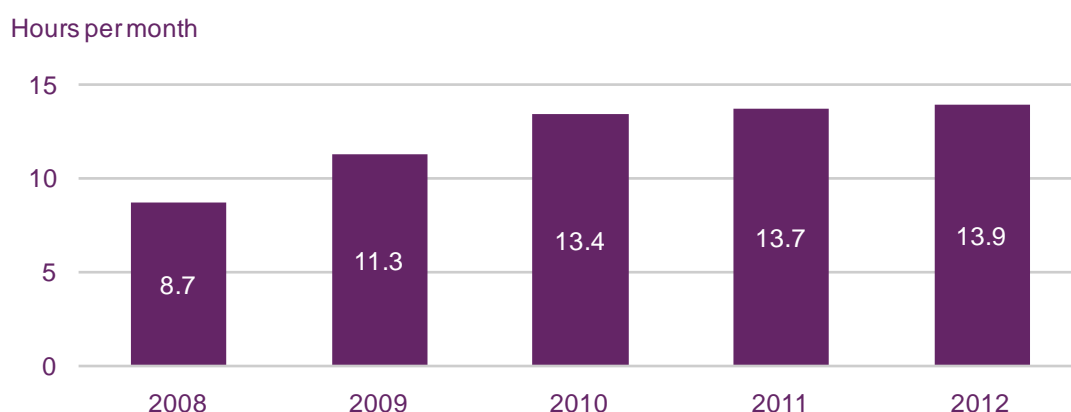
Source: Ofcom research, data as at Q1 of each year  
 Base: All internet users aged 16

**The average amount of time spent using a PC/laptop to access the internet at home grew by just 1.3% in the year to March 2012**

Ofcom estimates based on data compiled by Nielsen/UKOM show that the average monthly time spent using a PC/laptop to access the internet at home increased by just 11 minutes per month (1.3%) to 13.9 hours per person in the UK in the year to March 2012 (Figure 5.70).

These figures do not capture internet use on devices other than PCs and laptops (Ofcom research suggests that between Q1 2011 and Q1 2012 the proportion of adults who used a smartphone grew from 27% to 39% and household take-up of tablet computers increased from 2% to 11%). Therefore, slowing growth in the time spent using PCs and laptops to access the internet is likely to be a result of consumers' increasing use of devices such as tablets and smartphones as substitutes for PC/laptops when accessing the internet at home.

**Figure 5.70 Average time per person spent online using a PC/laptop at home**



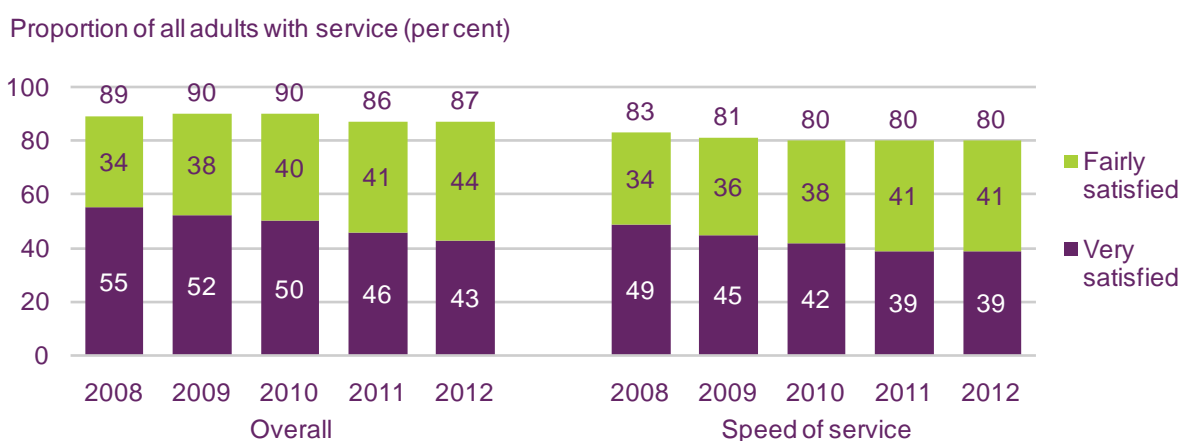
Source: Ofcom / Nielsen / UKOM

Note: Ofcom estimate of fixed internet use per person is based on Nielsen's data on the average monthly time spent online at home including the use of applications across the online population only; data are for March of each year

**Satisfaction with fixed broadband services was unchanged in the year to Q1 2012**

The proportion of respondents with a fixed broadband connection who were either 'very' or 'fairly' satisfied with their overall fixed broadband service was unchanged in the year to Q1 2012, at 87% (Figure 5.71). The proportion of consumers who were satisfied with the speed of their fixed broadband connection was also unchanged during the period, at 80%, despite increasing average broadband speeds (Ofcom research shows that the average UK residential fixed broadband speed increased from 6.2Mbit/s to 7.6Mbit/s between November/December 2010 and November 2011).<sup>158</sup>

**Figure 5.71 Residential consumer satisfaction with aspects of fixed broadband service**



Source: Ofcom research, data as at Q1 of each year

Base: All adults aged 16+ with a fixed broadband connection

Note: Includes only those who expressed an opinion

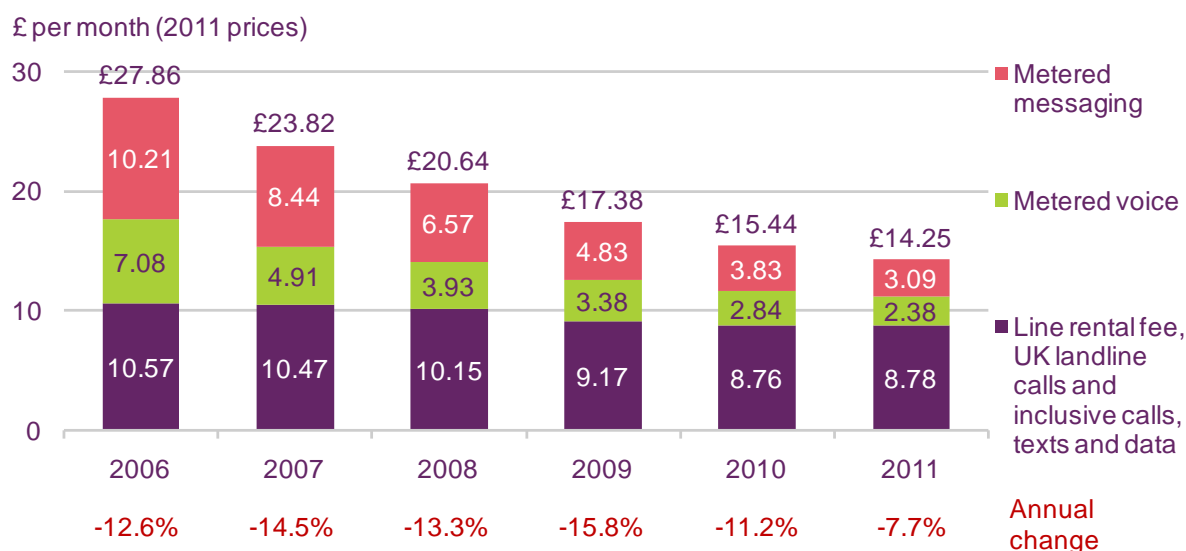
<sup>158</sup> <http://stakeholders.ofcom.org.uk/market-data-research/other/telecoms-research/broadband-speeds/?a=0>

### 5.3.4 Mobile voice and messaging services

The cost of a basket of mobile telephony services<sup>159</sup> continued to decline in 2011, falling by £1.18 a month (7.7%) to £14.25 a month in real terms (Figure 5.72). More than half of this fall (74 pence per month) was in the monthly cost of metered messages, a reflection of the fact that pay-monthly mobile tariffs and pre-pay top-ups now frequently include large numbers of bundled SMS messages.

In the basket, the total cost of mobile line rental (including any bundled voice, messaging and data services) and calls to UK landlines increased for the first time in 2011, albeit by just 0.2% or two pence per month. It is likely that the main driver behind this is increasing line rental fees: growth in smartphone take-up will result in increases in line rental fees (as these devices are more expensive than more basic handsets, and this increased cost will typically be passed onto the user in the form of higher line rental fees) and more than one mobile provider introduced contract price increases in 2011.

**Figure 5.72 Real cost of a basket of mobile services**



Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators; excludes non-geographic voice calls; adjusted for RPI; includes VAT

### Pre-pay and post-pay mobile voice call costs continued to converge in 2011

In 2011 the average cost of a post-pay contract voice call minute was 8.6 pence per minute, just 0.4 pence per minute (4.9%) higher than the 8.2 pence per minute average cost of a pre-pay call (Figure 5.73). In comparison, three years previously, in 2008, the difference between the average cost of a contract and pre-pay voice call minute (10.7 pence per minute and 7.8 pence per minute respectively) had been almost three pence per minute (37.5%).

While the average cost of a pay-monthly voice call minute has been falling over the past few years, the average cost of a pre-pay voice call minute has been increasing since 2009. One reason behind this is slowing growth in subscriber numbers in a mature market, which has prompted mobile providers to try to migrate pre-pay customers onto post-pay monthly contracts, as post-pay customers are typically higher spenders and are less likely to churn

<sup>159</sup> Comprising UK geographic calls, on-net and off-net calls to other mobiles, outgoing international calls and text messages at average usage levels in 2011.

as they are tied into minimum term contracts. Pay-monthly per-minute costs will be overstated in this analysis, as line rental fees frequently include bundled data and messaging services as well as an element of the handset subsidy.

**Figure 5.73 Average cost per mobile voice call minute, by customer type**



Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators; contract calculation includes rental element which will often include a number of inclusive messages and data allowance; calculations use actual minutes of use

### More than two-thirds of new mobile contracts had a minimum term of two years in Q1 2012

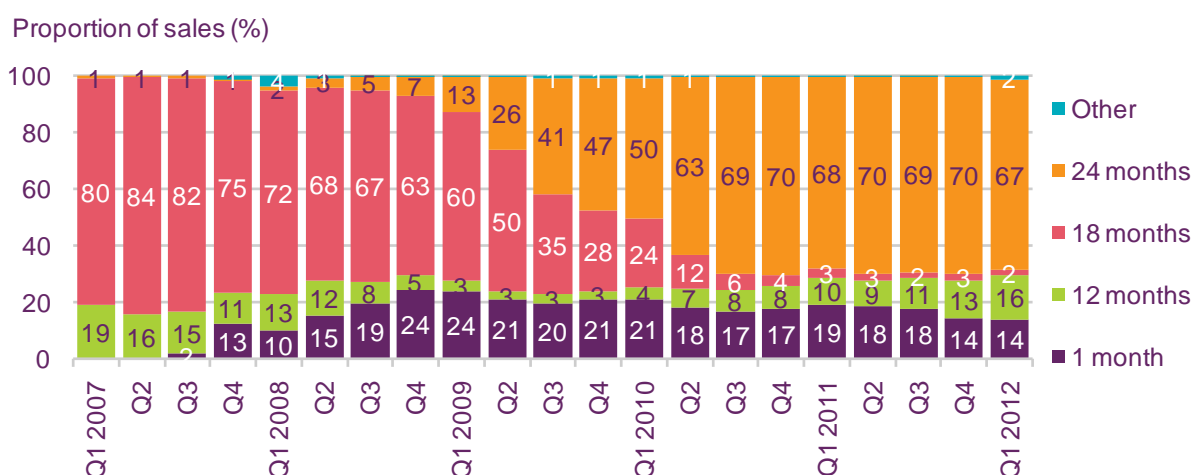
As is shown in Figure 5.74 below, the average length of new mobile contracts has increased in recent years, and in Q1 2012 more than two-thirds of new contracts had a minimum term of two years, compared to five years previously when this was the case for just 1% of contracts and 80% had a minimum term of 18 months. Similarly, in Q1 2012 31% of new mobile post-pay contracts had a minimum term of 18 months or less, compared to 99% five years previously.

The main driver behind this has been mobile operators changing their strategies in reaction to slowing growth in total mobile subscriber numbers: whereas previously they had concentrated on growing their customer bases, the emphasis has now switched to protecting their revenues and existing bases. By persuading consumers to take longer mobile contracts (by offering lower monthly fees for these services), the operators are tying their customers in for longer, and reducing customer churn.

The switch to smartphones appears also to have contributed to increasing average mobile contract lengths. Smartphone handsets are typically more expensive than those with fewer features, and by offering smartphones over longer minimum terms the mobile providers enable consumers to spread the cost of the handset over a longer period, in doing so keeping monthly rental costs down. While average contract lengths are increasing, the proportion of contracts with a minimum term of 12 months or less has also increased, from 19% in Q1 2007 to 30% in Q1 2011, as a result of growing take-up of SIM-only tariffs and EU law mandating providers to offer 12-month contracts from May 2011 (at the same time banning those with initial commitment periods that exceed 24 months). All of the one-month minimum term contracts and some of the 12-month contracts will be SIM-only.



**Figure 5.74 Contract lengths for new post-pay mobile connections**



Source: GfK Retail and Technology UK Ltd, Contract Length Sales of new Mobile Connections, Q1 2007 to Q1 2012.

Notes: England, Scotland and Wales only (excludes Northern Ireland); based on GfK's coverage of 94% of the consumer market; based on new post-pay connections; excludes contract renewals; only represents sales through consumer channels (i.e. most business connections are excluded).

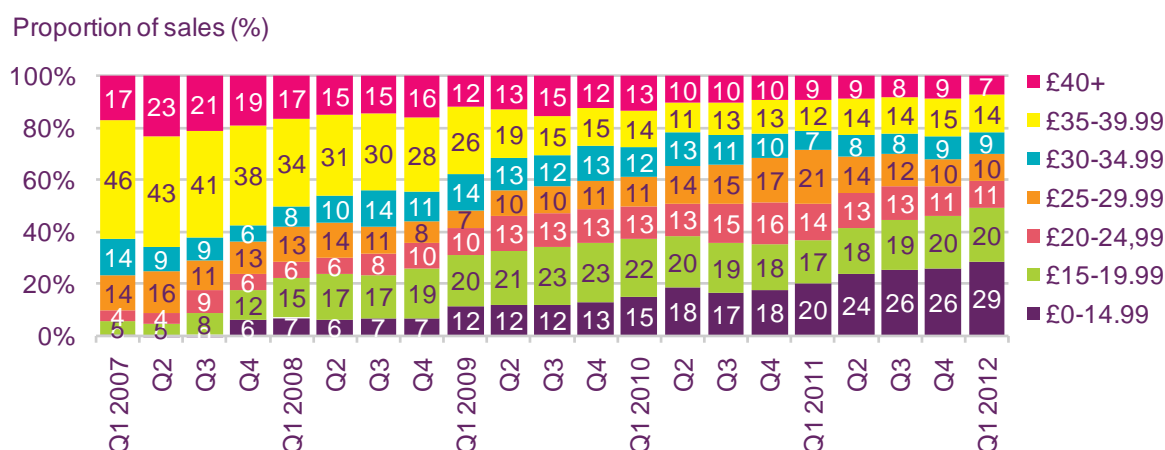
### Almost half of new mobile contracts were for less than £20 a month in Q1 2012

GfK data, showing the split of new post-pay contract mobile sales by monthly cost, indicate that consumers are increasingly choosing tariffs with lower fixed charges (Figure 5.75). In the first quarter of 2012 49% of new mobile contracts had a monthly rental fee of less than £20, 12 percentage points more than a year previously and 43 percentage points more than five years earlier in Q1 2007, when just 6% of new mobile tariffs fell into this price bracket.

There are a number of reasons for the fall in the average cost of new mobile contracts. The first of these is falling prices for mobile services, as competition between providers has resulted in increases in the volumes of call minutes, messages and data that are available for a defined monthly spend. Secondly, consumers are keeping their handsets for longer. The average length of a new mobile contract has increased significantly over the past few years, and many consumers are electing to keep their existing handset after the end of their contract and switch to SIM-only plans. Shorter contracts that include a new handset typically have higher line rental fees than longer mobile contracts and SIM-only plans, so a shift towards these services will result in downward movement in average contract values.

Thirdly, many pre-pay customers have migrated to monthly contracts in recent years (at the end of 2011 49% of mobile connections were post-pay, 10 percentage points higher than three years previously). As pre-pay customers' use of mobile services is typically much lower than that of post-pay customers (as shown in Figure 5.78 and Figure 5.80), average voice call use per contract customer has fallen, which in turn will contribute to the falling contract values seen in Figure 5.74. Finally, many consumers may be consciously limiting their mobile use in order to reduce costs, as a result of the current economic climate.

**Figure 5.75 Monthly line rental prices for new post-pay mobile connections**



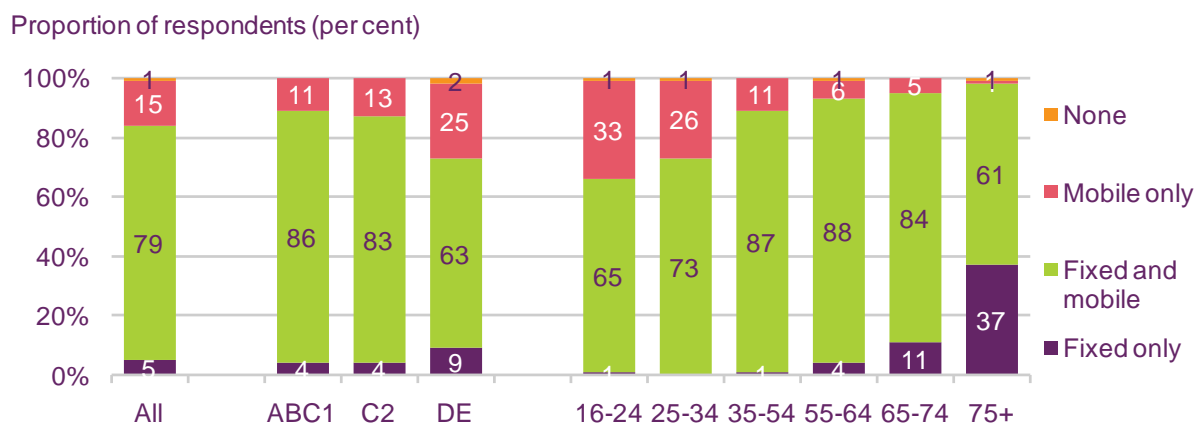
Source: GfK Retail and Technology UK Ltd, *Contract Handset Acquisitions: price segments*.  
 Notes: England, Scotland and Wales only (excludes Northern Ireland); based on GfK's coverage of 94% of the consumer market; based on new post-pay connections; excludes contract renewals; only represents sales through consumer channels (i.e. most business connections are excluded).

### A third of 16-24 year olds lived in a mobile-only household in Q1 2012

Ofcom research suggests that a third of 16-24 year olds (33%) lived in a household that used mobiles as its sole form of telephony in Q1 2012, more than twice the 15% average recorded across all adults during the period (Figure 5.76). This is likely to be a result of higher levels of mobile adoption and use among younger consumers, younger people frequently living in shared rented accommodation and mobiles being an individual purchase while a fixed line is a household purchase. The figure among 25-34 year olds was also high, with over a quarter (26%) living in a mobile-only household.

Similarly, the proportion of respondents living in mobile-only homes was higher among the DE socio-economic group than among other grades, with a quarter (25%) of DE homes being mobile-only. This is possibly a result of lower-income households not wanting to commit to lengthy minimum-term fixed-line contracts, having trouble passing the credit checks that some providers require, or seeking to control their telephony spend by using pre-pay mobiles as an alternative to fixed telephony.

**Figure 5.76 Household penetration of fixed and mobile telephony, by socio-economic group and age**



Source: Ofcom research, Q1 2012 data  
 Base: All adults aged 16+

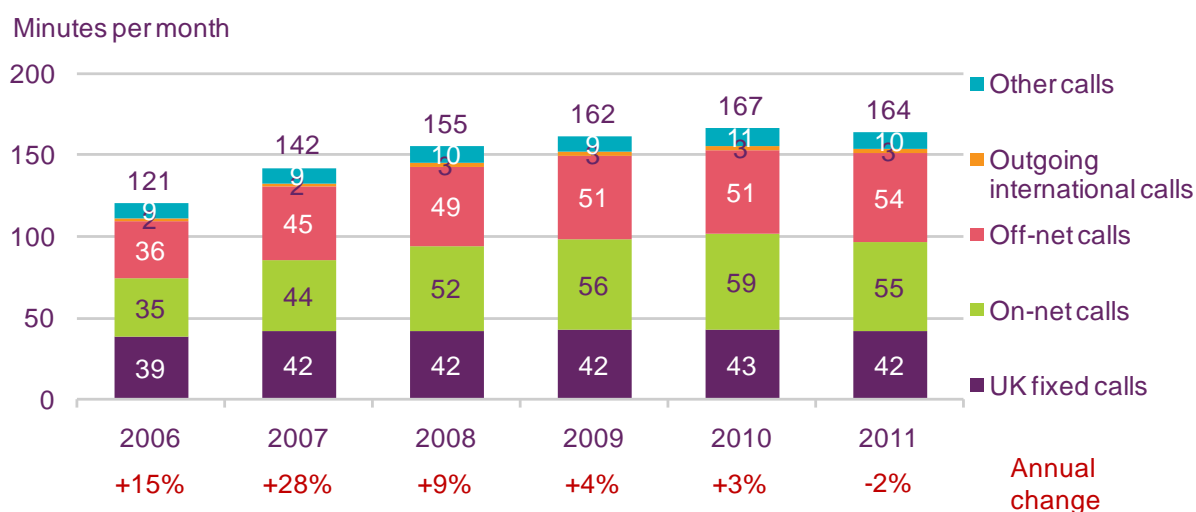
### Average mobile-originated voice call volumes per person fell for the first time in 2011

In 2011 an average of 164 minutes of mobile-originated calls were made per person per month in the UK, three minutes (1.7%) less than had been the case in 2010 (Figure 5.77). This is the first year that per-capita mobile voice use has fallen, and signifies a major shift in usage patterns, as mobile users shift away from voice call services.

There are two main trends which are likely to be contributing to the decline in average mobile voice call use. The first of these is continued growth in text messaging, where volumes increased by over 17% in 2011 (see Section 5.2.4). The second is growth in the use of alternative forms of communication which use a smartphone's data connection to provide services (such as email and instant messaging) and which can be used as substitutes for traditional voice and text services (Section 5.1.4 considers changing use of communications services in greater depth).

Most smartphone handsets come with these services as standard, and third-party 'over-the-top (OTT) services are increasingly available to consumers by downloading the associated app. Examples of these include *Skype* (which has iOS, Android and Windows Phone apps that allow users to make VoIP voice and video calls over their smartphone's WiFi data connection) and *WhatsApp* (which provides instant messaging services over a smartphone's data connections and is available on the same three platforms), among others.

**Figure 5.77 Average monthly outbound mobile voice call volumes per person**



Source: Ofcom / operators

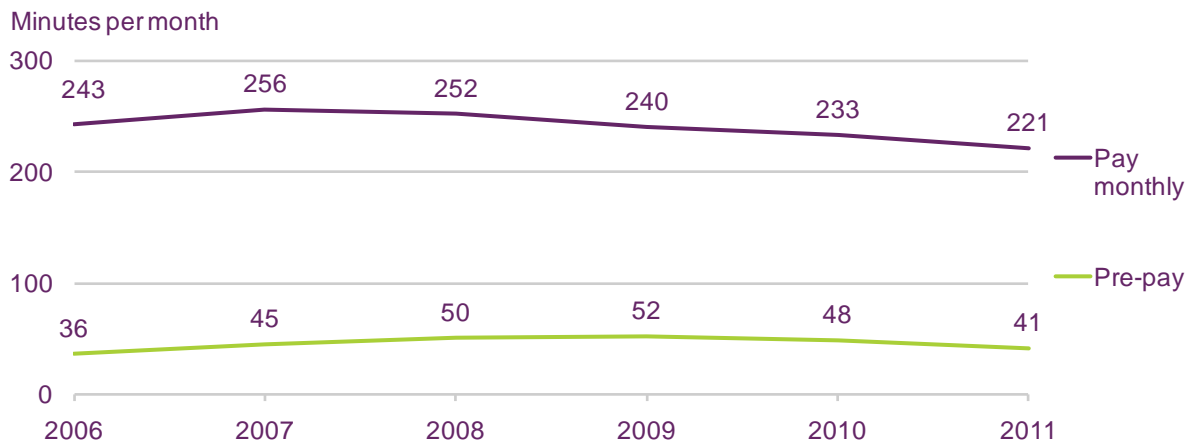
Note: Includes estimates where Ofcom does not receive data from operators; calculation excludes mobile broadband connections

### Average voice call volumes fell for both pre-pay and post-pay customers in 2011

On average, post-pay contract mobile subscribers made 221 minutes of outgoing calls in 2011, more than five times the 41 minutes per month recorded for pre-pay customers (Figure 5.78). As in 2010, average voice call use per connection declined for both post-pay contracts and pre-pay connections in 2011, when the rate of decline was higher for pre-pay customers (14.9%) than for post-pay customers (5.3%). However, lower levels of use among pre-pay users meant that the average monthly call volume decline was higher for post-pay connections (12 minutes) than pre-pay connections (seven minutes).

The rate of decline in calls per connection increased for both post-pay and pre-pay connections in 2011, due to increasing use of non-voice services (see section 5.1.4) and the migration of pre-pay users onto monthly contracts. Customers who migrate from pre-pay to pay-monthly contracts are likely to have higher than average pre-pay use, but lower than average post-pay use, so the average use for both connection types will fall as they make this switch.

**Figure 5.78 Average monthly outbound mobile call minutes per connection, by subscription type**



Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators; calculation excludes mobile broadband connections.

**The average person sent 200 text messages per month in 2011**

The average volume of text and picture messages continued to increase in 2011, up by 16.6% to just over 200 messages per month (Figure 5.79). This growth was mainly as a result of mobile providers including generous SMS message allowances with pay-monthly contracts and pre-pay top-ups, and came despite increasing smartphone take-up, meaning that a larger proportion of mobile users are able to access substitute text-based services such as email and instant messaging services, including OTT services which use their handset’s data connection. Use of MMS services remained low, with the average person sending 0.8 MMS messages per month, less than 0.5% of total SMS and MMS use.

**Figure 5.79 Average monthly mobile messaging volumes per person**



Source: Ofcom / operators

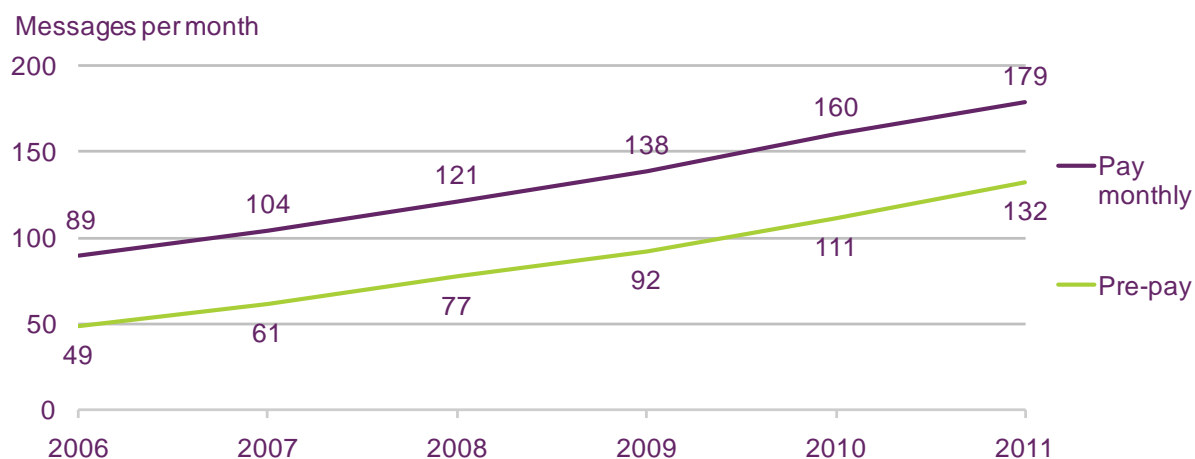
Note: Includes estimates where Ofcom does not receive data from operators.

**Average SMS use is increasing for both post-pay and pre-pay users**

Average use per mobile connection is lower than average use per person (as shown in the previous chart) as many people use more than one mobile, often having one for work use and another for personal use. Figure 5.80 shows that there were increases in mobile

messaging use across both pay-monthly and pre-pay users in 2011, with average monthly use per pay-monthly connection growing by 18 messages (11.3%) to 179 per month, and average pre-pay use growing by 21 messages per month (19.0%) to 132 messages per month during the year.

**Figure 5.80 Average monthly messaging volumes per connection, by subscription type**



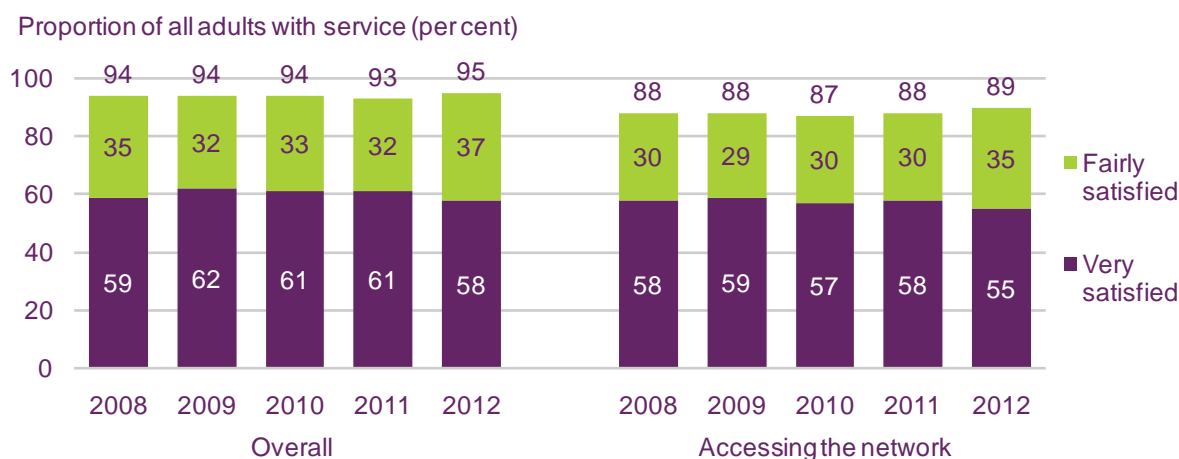
Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators.

### Ninety-five per cent of mobile users were satisfied with their service in Q1 2012

Satisfaction levels with mobile services remained high in Q1 2012, with 95% of users saying that they were 'very' or 'fairly' satisfied with their mobile service, unchanged from Q1 2011 (Figure 5.81). Satisfaction with the ease with which mobile users could access their network was slightly lower, with 89% saying that they were 'very' or 'fairly' satisfied (in line with the Q1 2010 figure), suggesting that more than one in ten suffer from mobile reception problems. While satisfaction levels for overall mobile services, and for the ability to access a mobile network, remained high, the proportion of mobile users who were 'fairly' rather than 'very' satisfied increased during the year.

**Figure 5.81 Residential consumer satisfaction with aspects of mobile service**



Source: Ofcom research, data as at Q1 of each year

Base: All adults aged 16+ with a mobile phone

Note: Includes only those who expressed an opinion

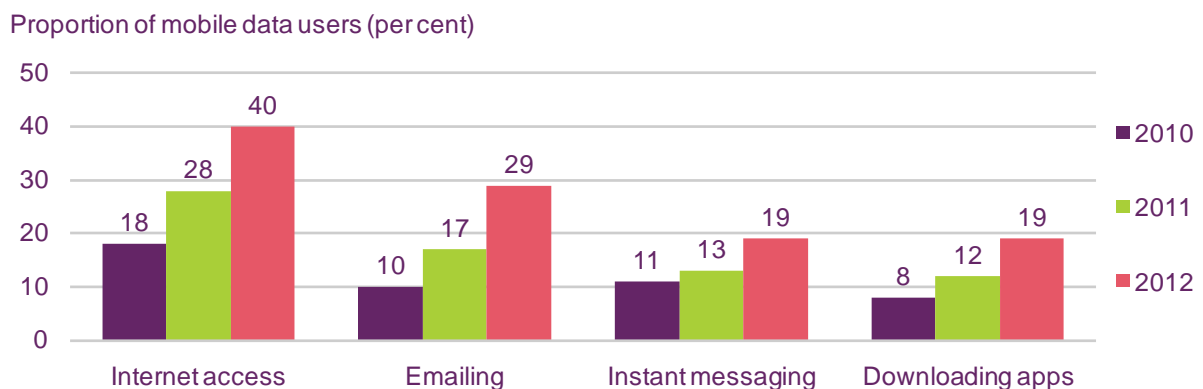
### 5.3.5 Internet access on a mobile handset

#### Growth in smartphone take-up resulted in increasing use of mobile data services in the year to Q1 2012

The proportion of mobile users who accessed websites, downloaded apps, used email and used instant messaging services on their handsets all increased in the year to Q1 2012, largely as a result of growth in smartphone take-up. The largest increases were in the use of mobiles to browse the internet and access email, with the proportion of mobile users doing each activity increasing by 12 percentage points, to 40% and 29% respectively (Figure 5.82).

Growth in the use of instant messaging services such as BlackBerry Messenger, iOS iMessage and multi-platform service *WhatsApp* was also evident, with 19% of mobile users saying that they used instant messaging on their mobile, the same proportion who said that they downloaded apps to their mobile phone. Use of both of these services also increased in the year to Q1 2012.

**Figure 5.82 Use of data services on mobile handsets**



QD9A: Which if any of the following activities, other than making and receiving voice calls, do you use your mobile for?

Source: Ofcom research, data as at Q1 of each year

Base: All mobile users aged 16+

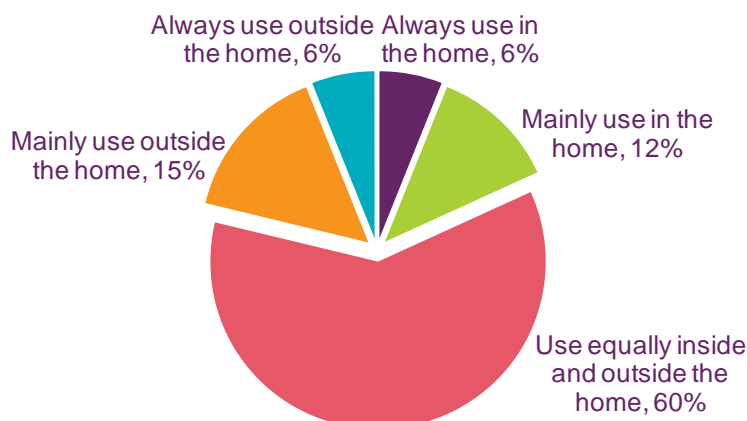
#### Ninety-four per cent of those who accessed the internet on their mobile said they did so in the home in Q1 2012

Ofcom research suggests that there was a fairly even split of internet use on mobile phones by location in Q1 2012, with 94% of those who accessed the web on their mobile handset saying that they did so at home and the same proportion that they do this outside the home (Figure 5.83). The majority of respondents (60%) said that they accessed the web on their mobile equally inside and outside the home.

When considering the relatively high use of mobile internet at home, it is important to note that many mobile handsets will connect to a WiFi network when in the home (according to Ofcom research, 61% of UK homes had a WiFi router in Q1 2012). When in the home, those with a WiFi connected mobile phone are able to access the web without having to boot up a PC/laptop, and usually without the reception issues which may arise when connecting to a mobile data network.

**Figure 5.83 Location of internet access using a mobile handset**

Proportion of mobile data users



Source: Ofcom research, Q1 2012

Base: All adults aged 16+ who access the internet on their mobile phone

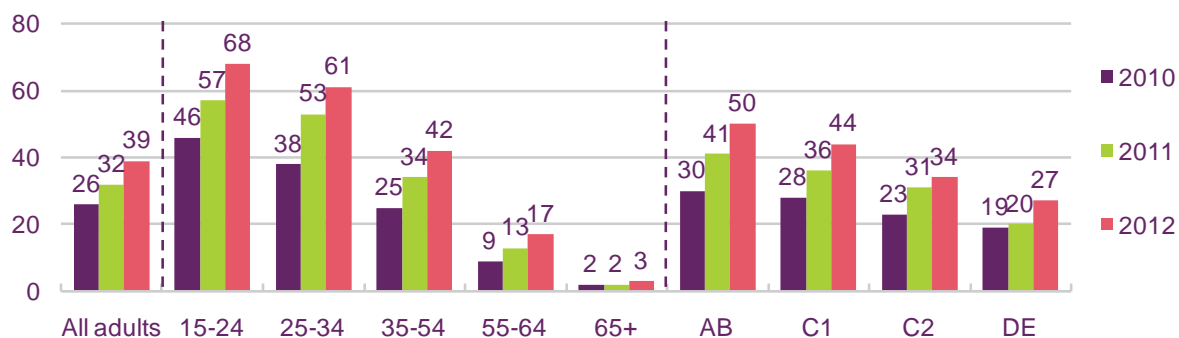
**Growth in internet use on a mobile phone was concentrated among younger age groups in the year to Q1 2012**

Ofcom research suggests that the increasing use of internet services on a mobile handset was concentrated among younger consumers in the year to Q1 2012 (Figure 5.84). While the proportion of consumers using a mobile handset to access the internet was unchanged in the 55-64 year-old and 65+ age groups in the year to Q1 2010 (at 17% and 3% respectively), it increased among all other age groups, the largest percentage point growth being among 16-24 year olds, where take-up increased from 57% to 68%.

Increasing use of mobile handsets to access the internet was also evident across most socio-demographic profiles in the year to Q1 2012, with the C2 group being the only one for which there was not a statistically significant increase over the period.

**Figure 5.84 Use of the internet on mobile phones, by socio-economic group**

Proportion of respondents (per cent)



QD28A: Which if any, of the following activities, other than making and receiving voice calls, do you use your mobile for?

Source: Ofcom research, data as at Q1 of each year

Base: All adults 16+

Note: Web/data access includes accessing the internet, downloading and streaming content, connecting using WiFi and using VoIP.



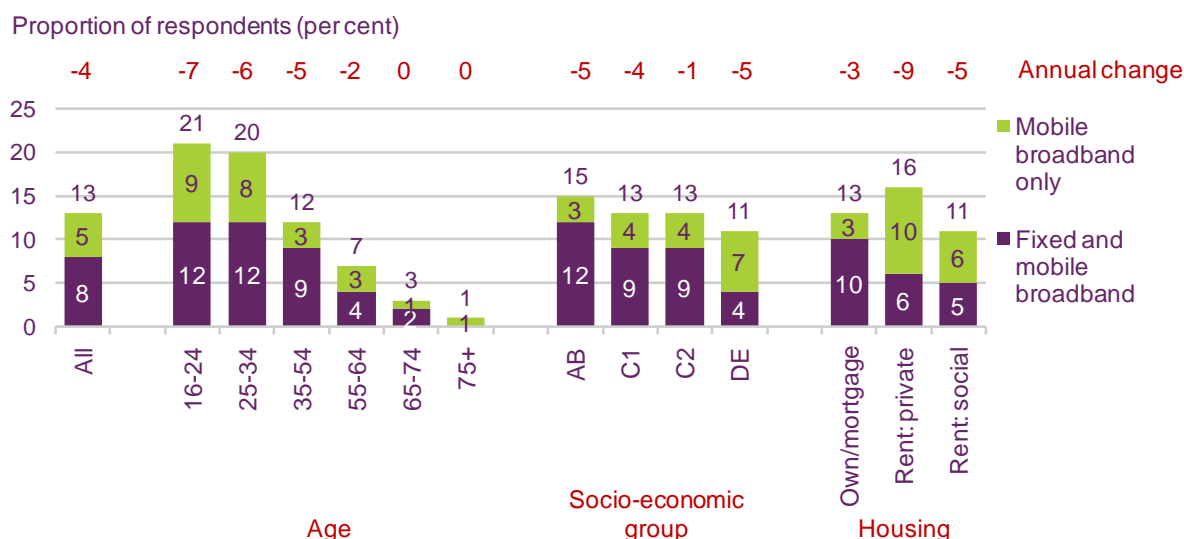
### 5.3.6 Mobile broadband services

#### Thirteen per cent of adults said that they used mobile broadband via a datacard or dongle in Q1 2012

According to Ofcom research, 13% of UK adults had a mobile broadband connection in their household in Q1 2012 (Figure 5.85). This represents a fall of four percentage points compared to the 17% figure recorded in Q1 2011. However, this data point should be treated with some caution, as figures collected from mobile operators show that the number of mobile broadband connections continued to increase over the period (see Figure 5.26).

The patterns of take-up of mobile broadband services by age were similar to those for mobile voice services, with take-up tending to be higher among the younger age groups and lower among older people. Again, this may be related to mobile broadband being an individual purchase, while fixed broadband is a household purchase. As shown in Figure 5.76, while average levels of mobile broadband use among 35-54 year olds (12%) were in line with the UK average, they were higher than average among those under 35 and lower than average among those aged 55 and older. There were no statistically significant differences in the proportion of adults using mobile broadband services across socio-demographic profiles or by housing types.

**Figure 5.85 Take-up of mobile broadband, by socio-economic group**



Source: Ofcom research, Q1 2012

Base: All adults aged 16+

#### The most frequently-mentioned time that mobile broadband is used outside the home is when travelling

As part of our consumer research we asked those who said they used mobile broadband to access the internet while outside the home *where* they did so (according to our research, while the majority of mobile broadband users use the service outside the home, 22% use it only in the home).

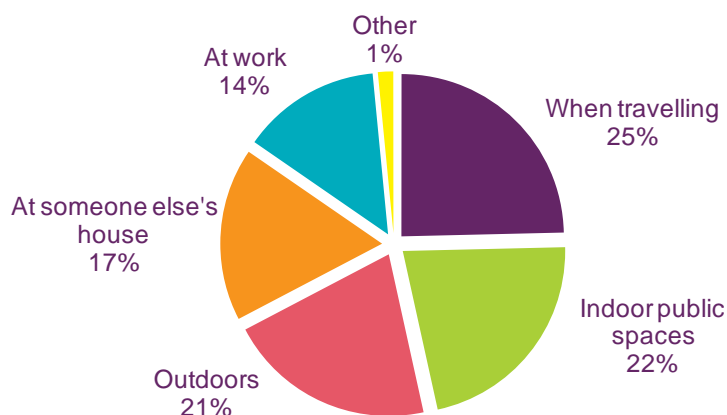
As shown in Figure 5.86 below, the most frequently-mentioned location for using mobile broadband outside the home was when travelling (e.g. on a train or in a car). This had a quarter (25%) of total mentions, followed by indoor public spaces (e.g. a pub, restaurant, theatre or shopping centre) with 22% of total mentions. Twenty-one per cent of total mentions for the location where mobile broadband was used outside the home were for

'outdoors', while 17% were for use at someone else's house and 14% for use of the service when at work.

More information on the use of mobile data services can be found in Section 5.1.3.

### Figure 5.86 Location of mobile broadband use outside the home

Proportion of total mentions



Source: Ofcom research, Q1 2012

Base: All adults aged 16+ who use mobile broadband outside the home

### Mobile broadband services are available from £3 a month

Figure 5.87 shows the lowest-cost stand-alone mobile broadband tariffs available from UK providers in March 2010, 2011 and 2012. This shows that while there was little change in the cost of the cheapest mobile broadband services available from T-Mobile, Orange, 3UK and Virgin Mobile in the year to March 2011, the same was not true of Vodafone and O2.

The price of Vodafone's cheapest mobile broadband product fell to £3 a month during the period, as it introduced a new tariff aimed at occasional users, which provides 250MB of mobile data a month and no WiFi use (with additional data charged at £2 per 250MB per day). Conversely, the price of O2's lowest-cost mobile broadband service increased to £10.21 a month in the year to March 2011, as it withdrew its £5.11 a month tariff offering 500MB of mobile data and unlimited WiFi (which had been introduced in the previous year), making a service offering 1GB of mobile data and unlimited WiFi the cheapest that it offered.

**Figure 5.87 Lowest-cost standalone mobile broadband contracts, by provider**

Provider		Monthly charge	Data allowance	Minimum contract length	Charges above allowance	WiFi hotspot use
Vodafone	2011	£7.50	500MB	1 month	£15/GB	1GB
	2012	£3.00	250MB	1 month	£2/250MB/day	Not included
O2	2011	£5.11	500MB	1 month	2.4p/MB	Unlimited
	2012	£10.21	1GB	1 month	£5.11/500MB or £10.21/GB	Unlimited
T-Mobile	2011	£10.00	1GB fair use	18 months	n/a	Not included
	2012	£10.00	1GB fair use	18 months	n/a	Not included
Orange	2011	£10.00	500MB	1 month	5.1p/MB	Not included
	2012	£10.00	500MB	1 month	5.1p/MB	Not included
3UK	2011	£7.89	1GB	18 months	10p/MB	Not included
	2012	£7.87	1GB	18 months	10.2p/MB	Not included
Virgin Mobile	2011	£10.21	1GB	2 months	1.46p/MB	Not included
	2012	£10.21	1GB	2 months	1.46p/MB	Not included

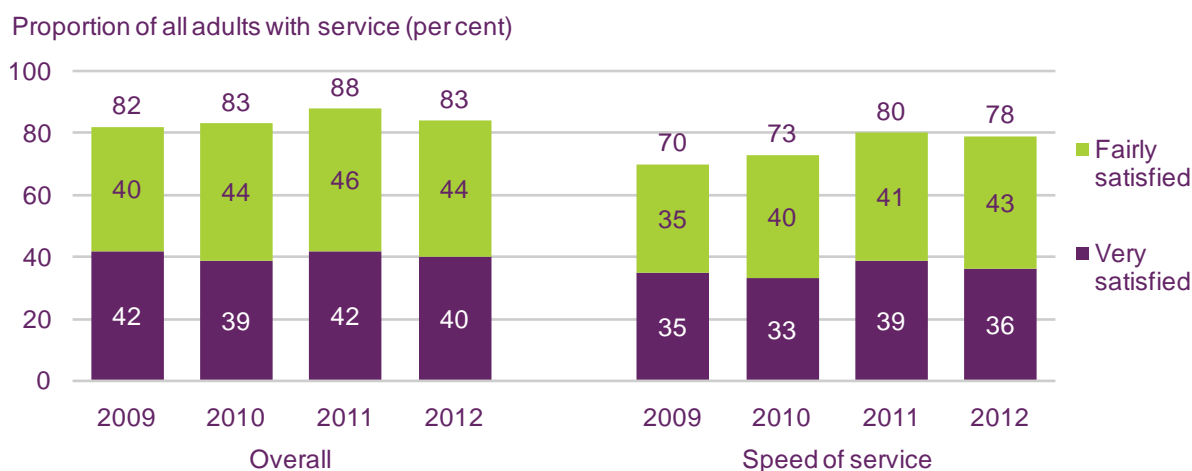
Source: Pure Pricing UK Broadband Pricing Briefings

Note: Data as at March of each year

**The proportion of mobile broadband users who were satisfied with their service fell slightly in the year to Q1 2012**

Ofcom research indicates that 83% of mobile broadband users were satisfied with their service in Q1 2012, and although the corresponding figure for Q1 2011 was 88%, this difference was not statistically significant (Figure 5.88). The change in satisfaction with the speed of mobile broadband services between Q1 2011 and Q1 2012 (when 78% of mobile broadband users saying they were ‘very’ or ‘fairly’ satisfied with the speeds provided by their service) was also within the error margins of the survey.

**Figure 5.88 Residential consumer satisfaction with aspects of mobile broadband service**



Source: Ofcom research

Base: All adults aged 16+ with a mobile broadband connection

Note: Includes only those who expressed an opinion



The Communications Market  
2012

**6 Post**

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## 6.1 Key market developments in post

### 6.1.1 Industry metrics and summary

Figure 6.1 UK postal industry key metrics

UK postal services industry	2006	2007	2008	2009	2010	2011
Addressed mail volumes	22.0bn	21.6bn	20.6bn	18.6bn	17.5bn	16.6bn
Mail revenues	£6.8bn	£6.8bn	£6.8bn	£6.6bn	£6.5bn	£6.7bn
Proportion of access mail in total mail	9.6%	16.9%	24.6%	32.7%	39.9%	43.6%
Direct mail share of advertising spend	14.2%	12.7%	12.3%	11.6%	10.9%	10.7%
Value of UK e-retail market	£30.2bn	£35.2bn	£43.8bn	£49.8bn	£58.8bn	£68.0bn

Source: Royal Mail Regulatory Financial Statements, Royal Mail Wholesale, Royal Mail Group Annual Reports, AA/Warc. Revenue figures are nominal. Note: Addressed mail volumes and revenues include Royal Mail total mails (excluding Parcelforce and unaddressed), access revenues and end-to-end delivered addressed letter mail. This does not include courier or express volumes and revenues. Royal Mail calendar year volume and revenue figures are derived from Ofcom calculations based on financial year figures in Royal Mail's Regulatory Statements and estimates of 2011-12 performance informed by Royal Mail's Report and Accounts and are therefore not directly comparable with Royal Mail's published accounts.

### 6.1.2 Introduction

This section examines the characteristics of the UK postal services industry. It includes an outline of Ofcom's new responsibilities for post, now that the Postal Services Act 2011 has come into force, and information on the universal service and competition.

### 6.1.3 Ofcom's new responsibilities in post and the Act

#### Ofcom's duties under the Postal Services Act 2011

In October 2011, the Postal Services Act 2011 ("the Act") came into force and Ofcom gained the responsibility and powers to regulate postal services. The Act gives us a primary duty to carry out our functions in relation to post in a way which we consider will secure the provision of a universal postal service. In discharging our duties in relation to the universal service, the Act also requires us to have regard to the need for the provision of the universal service to be financially sustainable and to become efficient within a reasonable time.

Ofcom's principal duty under the Communications Act 2003 ("the 2003 Act") is to further the interests of citizens and consumers, where appropriate by promoting competition. This duty, together with our general duties under the 2003 Act, also applies when we carry out our functions in relation to post. The 2011 Act also provides that, where we are carrying out our functions in relation to postal services, in the case of a conflict between our duty to secure the provision of the universal postal service and our general duties under the 2003 Act, our duty to the universal service takes precedence.

The Act also changes the scope of the regulator's duties compared to the previous postal legislation, the Postal Services Act 2000 ("the 2000 Act"). It replaced the previous licensing regime with a general authorisation to provide postal services, subject to conditions imposed

by Ofcom. The new Act is clear that the primary focus of regulation should be on the provision of the universal service.

### 6.1.4 The universal service

Central to the role that post plays in society is the universal service obligation. This requires Royal Mail to deliver and collect letters six days a week, and states that prices for services that are part of the universal service must be affordable and uniform throughout the UK.

The universal postal service must, as a minimum, include each of the services set out in section 31 of the Act. These services are known as the 'minimum requirements' and comprise (in summary):

- at least one delivery of letters every Monday to Saturday, and at least one delivery of other postal packets every Monday to Friday;
- at least one collection of letters every Monday to Saturday, and at least one collection of other postal packets every Monday to Friday;
- a service of conveying postal packets from one place to another by post at affordable, geographically uniform prices through the UK;
- a registered items service at affordable, geographically uniform prices through the UK;
- an insured items service at affordable, geographically uniform prices through the UK;
- the provision of certain free services to the blind/partially sighted; and
- the free conveyance of certain legislative petitions and addresses.

#### How the universal service is delivered

To provide the universal service, Royal Mail has a nationwide network of 57 mail centres and 1,356 delivery offices across the UK, linked by a predominantly road-based transport network. The process which mail goes through from collection to delivery is commonly referred to as the 'pipeline'. Including the transportation of mail around the country, there are six main stages to this process, as illustrated in Figure 6.2.

**Figure 6.2** Royal Mail's pipeline



Mail is collected from pillarboxes, Post Office branches and businesses before being transported to mail centres for outward sortation. Each mail centre serves a geographical area, so mail which is for the local area stays at the mail centre. Items for other postcode areas are sorted together and then transported to the appropriate mail centres, either directly or via the national distribution centre at Northampton. These items then go through the process of inward sortation at the mail centre and are grouped together for local distribution to delivery offices before final delivery.

At the core of the pipeline are the mail centres. These facilities undertake dual functions at different stages of the process. First, they operate as outward mail centres (OMC) when mail collected in a local area is processed and sorted to be despatched to other postcode areas.

Later in the process they operate as inward mail centres (IMC) and receive mail from other areas to process for distribution to delivery offices.

### **Financing the universal service in a declining market**

The postal sector remains essential to the UK economy. In 2011, 16.6 billion letters were delivered to 29 million addresses. Royal Mail was responsible for delivering 99% of these.

But nevertheless, the sector faces major challenges. The volume of mail in the UK has fallen by over a quarter since 2006. The revenue loss due to this volume decline has been compounded by customers, particularly businesses, moving away from higher-value traditional products (such as First and Second Class mail) and towards lower-value services, such as bulk mail (post sent in high volume typically by business customers). Together these factors have meant that Royal Mail's revenues have fallen by 4.8% between 2006 and 2010.

These challenges were set out in the two reports undertaken on behalf of the government by Richard Hooper in 2008 and 2010.<sup>160</sup> These argued that the status quo was not tenable and recommended that Royal Mail needed to be opened to private investment; that the pension deficit needed to be moved to the Treasury; and that responsibility for regulating post should be transferred to Ofcom.

More recently, successive years of price rises and greater commercial freedoms, under the new regulatory framework, are showing signs of supporting some improvement to Royal Mail's finances. Its financial results for 2011-12 showed improving profitability and positive cash flow for the first time in four years. The core UK business (UKPIL) returned to operating profit (after modernisation costs) of £23m from a loss of £120m in 2011.

However, Royal Mail faces ongoing challenges. Mail volumes are likely to continue to decline as more customers switch to electronic alternatives. While mail will continue to play an essential role within the wider communications landscape, it has yet to reach a new steady state and the future remains highly uncertain.

### **The new regulatory framework**

With our duties in mind, we proposed and implemented a major change in the regulation of the sector. In broad terms, we granted Royal Mail pricing freedom coupled with key safeguards to ensure that it would have strong incentives to improve efficiency and to protect vulnerable consumers.

Following consultations in October 2011 and December 2011, we published our final statement on the economic regulation of postal services on 27 March 2012. Our regulatory changes came into effect on 1 April 2012. At the heart of our conclusions and decisions in relation to a range of issues are the following:

- A commitment to the continued provision of the universal postal service.
- Granting Royal Mail sufficient pricing flexibility to ensure that it can continue to provide these services on a sustainable basis.
- An effective and ongoing monitoring regime to track Royal Mail's performance in respect of the universal service, efficiency levels and pricing.

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<sup>160</sup> Hooper et al, *Modernise or decline: Policies to maintain the universal postal service in the United Kingdom*, December 2008  
Hooper, *Saving the Royal Mail's universal postal service in the digital age*, September 2010

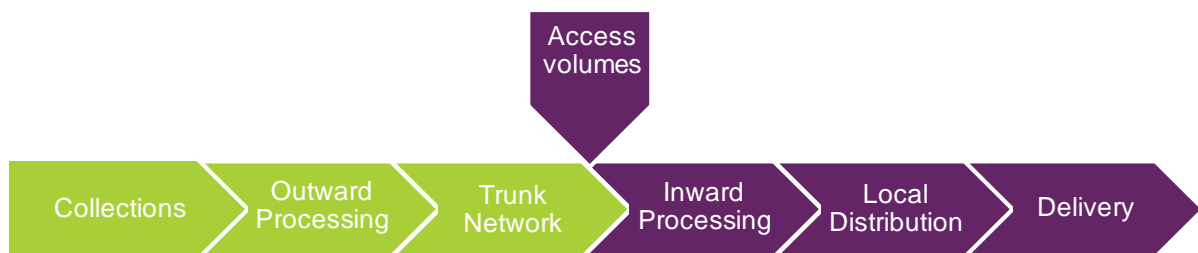


- To put in place a safeguard price cap in relation to Second Class mail to ensure that vulnerable consumers remain able to access a basic universal service.
- Granting further commercial and operational freedoms to Royal Mail so that it is better able to respond to customer requirements, and adapt to the challenging environment.
- To ensure that the benefits of competition are obtained in a manner that supports the universal service.
- To require Royal Mail to provide detailed financial information to Ofcom, to a sufficient level to enable us to carry out our regulatory duties.

### 6.1.5 Competition

There are two main kinds of competition in the UK postal sector, known as end-to-end and downstream access. An end-to-end competitor entirely bypasses Royal Mail's network and undertakes its own collection, sorting and delivery. Access competitors collect mail from customers and then access Royal Mail's network for the mail to be delivered to the final recipient, as shown on Figure 6.3. Royal Mail is obliged to grant access to competitors at the IMC. Access competition is the main form of competition in the UK today and in 2011 access operators handled 7.2 billion items.

**Figure 6.3 Access operations in the pipeline**



End-to-end competition also exists in the UK, albeit on a far smaller scale than access competition. End-to-end competitors bypass Royal Mail's network, collecting, sorting and ultimately delivering their customers' mail entirely through their own networks. Most regulated postal operators in the UK operate small networks covering specific postcode areas. Many end-to-end operators are cycle couriers, sole traders or have established unaddressed delivery networks.

TNT Post UK, a subsidiary of the Dutch universal service provider PostNL and an established access operator in the UK, launched a trial for end-to-end deliveries in west London in April 2012. This follows the conclusion of an earlier smaller-scale trial in Merseyside, which had been running since 2009. TNT has stated that the trial is intended to carry out further testing and analysis of its operations and that it intends to roll out a broader end-to-end service.

#### **Volumes delivered by other operators have fallen**

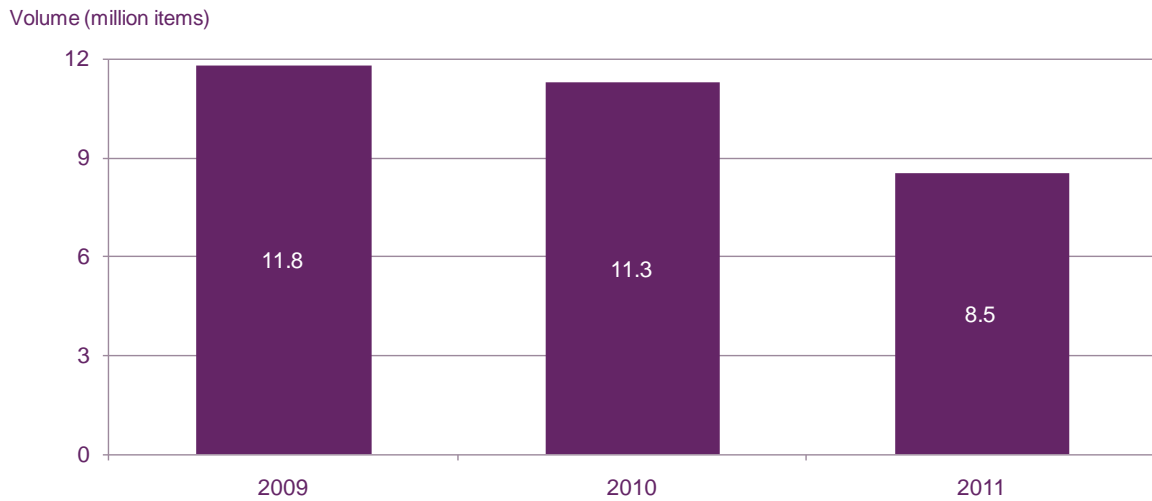
Typically, the volume of mail handled by end-to-end operators is relatively small, reflecting the smaller geographical areas served by these operators. As Figure 6.4 shows, operators other than Royal Mail delivered 8.5 million items entirely through their own networks in 2011.

End-to-end operators have also reported falling volumes. Sixteen operators reported to Ofcom that they delivered end-to-end addressed mail during 2011. While the overall picture

is of declining volumes, it should be noted that a number of smaller operators have seen significant growth in their own volumes as their businesses become more established and as customers are acquired.

Please note that the volumes reported in the chart below refer to regulated post only, and do not include other types of mail handled by these providers, such as unaddressed mail, express and publications. Volumes handled through document exchange networks by the providers which offer this service are also excluded.

**Figure 6.4 Other operators' end-to-end delivered volumes: 2009 to 2011**



*Source: Operators' returns, based on former licensed area delivered volumes*



## 6.2 The postal services industry

This section explores some of the significant developments and trends in the UK postal services market. It includes information on mail volumes and revenues, access growth, the applications of mail, and stamp prices.

Key points in this section include:

**The decline in postal revenues has slowed, following years of decline.** In 2011, revenue increased in nominal terms for the first time in four years (to £6.7bn), driven by price increases for Royal Mail bulk mail products. Mail volumes and revenues have been declining since 2007, although annual price increases for Royal Mail products have meant that revenue has fallen at a slower rate than volumes.

**Mail volumes continued to fall.** Mail volumes have been falling consistently for the past five years, and declined by 25% between 2006 and 2011 due to the effects of negative economic growth and senders using electronic alternatives instead of physical mail. Royal Mail delivered 16.6 billion items; approximately 58 million items each working day.

**Direct mail volumes have remained steady as its share of total volume has increased.** After consecutive years of decline between 2006 and 2010 (including a year-on-year decline of 18% between 2008 and 2009), direct mail volumes remained broadly stable between 2010 and 2011. Direct mail is a key use of mail, and accounts for around a fifth of total mail volume. Expenditure on direct mail remained stable at £1.7bn in 2011, with spend on postage accounting for 44% of the total.

**The value of the UK e-retail market has continued to grow, reaching £68bn in 2011.** According to statistics from the Interactive Media in Retail Group, the value of online shopping in the UK grew by 15.6% between 2010 and 2011 and is now worth £68bn.

**Growth in access volumes has slowed.** Year-on-year growth has now slowed to less than 4%, indicating that the majority of the customers who have been able to take advantage of the benefits of switching their volumes to an access operator have now done so. Access mail refers to bulk mail that is collected and transported by operators other than Royal Mail before being handed over to Royal Mail for final delivery. Access now accounts for 44% of total mail volume.

### 6.2.1 Postal industry revenue

#### Revenues have showed improvement following years of decline

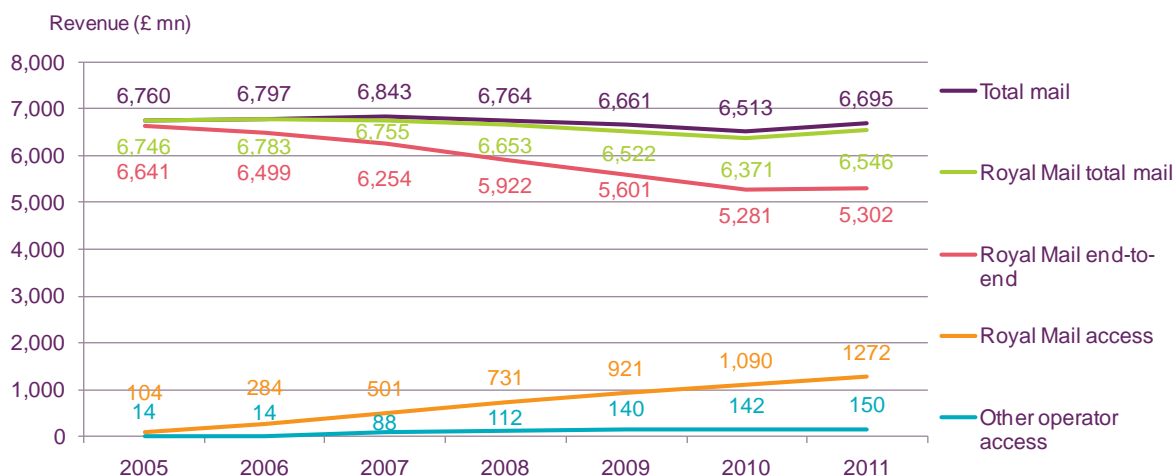
For the first time in four years, mail revenue has increased nominally, rising to £6.7bn in 2011. The majority of this rise is due to increases in the price charged by Royal Mail for bulk and access mail services, which took effect in May 2011. Increases in stamp and single-piece mail prices of around 10-12% in April 2011 will also have contributed to this rise. (Figure 6.5) Mail revenues have been declining alongside falling volumes since 2007, falling by 4.8% between 2007 and 2010.

Access revenues have seen constant year-on-year growth since the first access agreement between Royal Mail and UK Mail in 2004. Since then, a number of providers have entered the market for upstream services. Comparing the access revenues won by other operators to those of Royal Mail since 2005 shows that growth in other operators' revenues has been slower. Typically, access operators will retain around 10-20% of the price of a posting, while Royal Mail will get the other 80-90%. In addition, customers' choice of access provider is

also partly driven by cost, so competition in this part of the market has kept down the prices offered by access operators.

Royal Mail's revenues for mail handled entirely through its own network (end-to-end) have fallen. This decline has been driven primarily by the increasing popularity of access, as large customers switch their bulk volumes to access operators or establish their own access agreements with Royal Mail.

**Figure 6.5 Mail market revenue: 2005 to 2011**



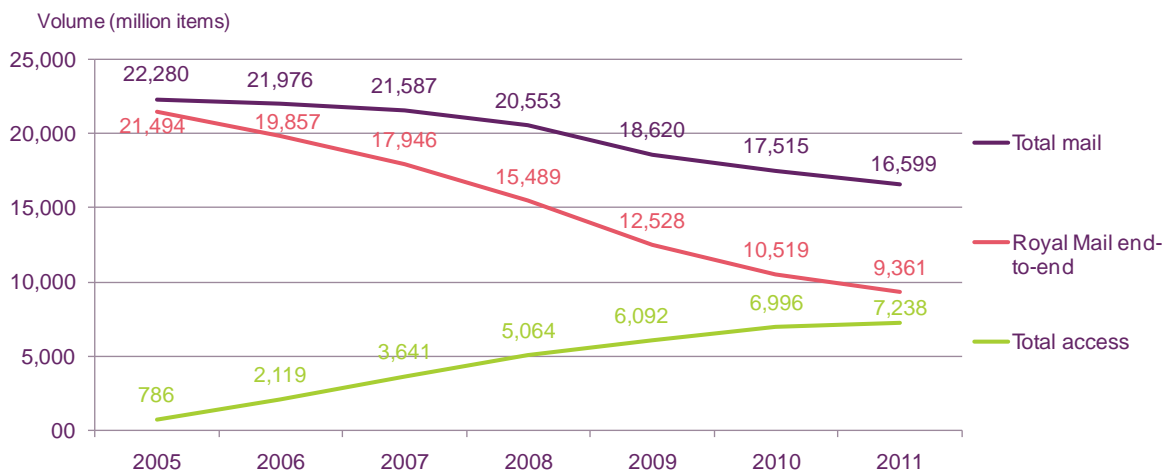
Source: Royal Mail Regulatory Financial Statements, operator returns to Ofcom, Ofcom estimates  
 Note: Royal Mail end-to-end refers to Royal Mail total mail revenues excepting access. Royal Mail calendar year revenue figures are derived from Ofcom calculations based on financial year figures in Royal Mail's Regulatory Statements and estimates of 2011-12 performance informed by Royal Mail's Report and Accounts and are therefore not directly comparable with Royal Mail's published accounts. Addressed mail only. Figures are nominal.

## 6.2.2 Postal industry volumes

### Mail volumes have continued to fall

Mail volumes have been in decline since 2005, falling from 22.3 billion items to 16.6 billion items as businesses and consumers move an increasing amount of communications online. Although the increase in online shopping has led to an increase in fulfilment mail, this has not been sufficient to offset decline in the traditional letter market. (Figure 6.6)

**Figure 6.6 Mail volumes: 2005 to 2011**

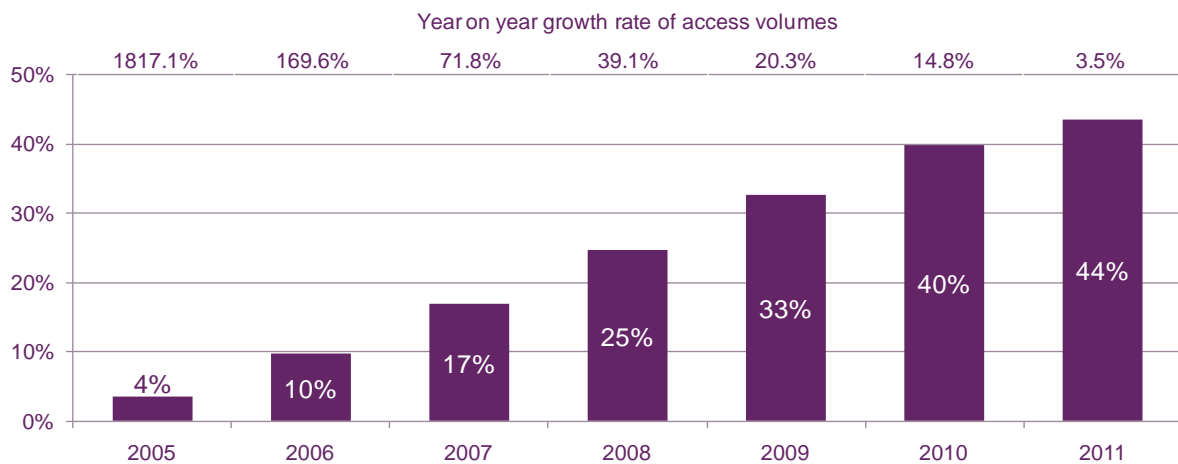


Source: Royal Mail Wholesale, Royal Mail Regulatory Financial Statements, Ofcom estimates  
 Note: Royal Mail end-to-end refers to total mail volumes excepting access. Royal Mail calendar year volume and revenue figures are derived from Ofcom calculations based on financial year figures in Royal Mail's Regulatory Statements and estimates of 2011-12 performance informed by Royal Mail's Report and Accounts and are therefore not directly comparable with Royal Mail's published accounts. Addressed mail only.

**Access volumes now account for 44% of total mail volume**

Although total mail volumes have been falling, access volumes have continued to increase year on year, and access now accounts for 44% of total mail volume, as Figure 6.7 shows.

**Figure 6.7 Proportion of access in total mail: 2005 to 2011**

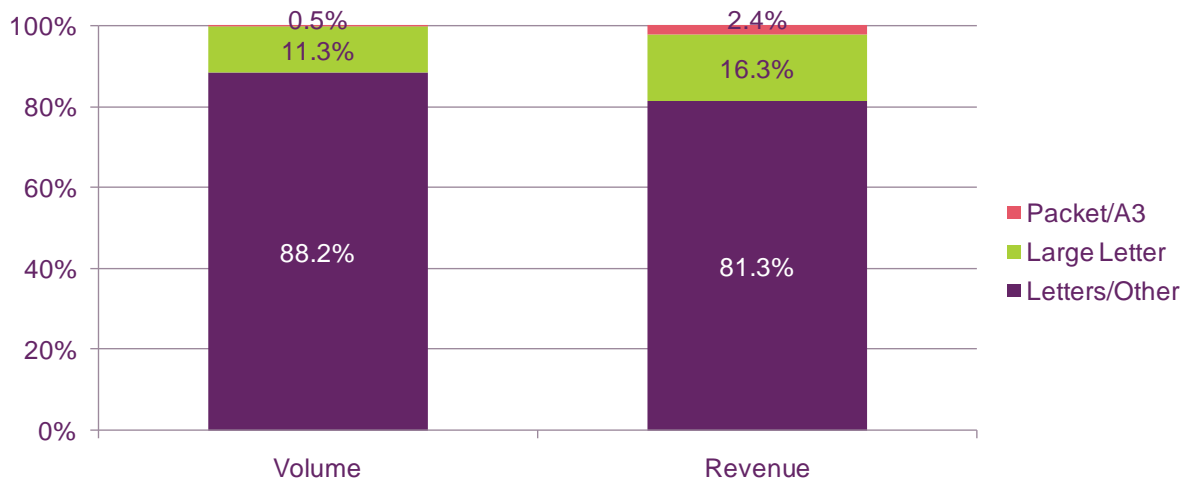


Source: Royal Mail Wholesale, Royal Mail Regulatory Financial Statements, Ofcom estimates

Since its introduction in 2004, the growth of access volumes has been rapid. Volumes increased from 41 million items in 2004 to 786 million items in 2005. This initial growth rate has not been sustained (as Figure 6.7 shows), although the year-on-year growth has been substantial. Each year, the growth rate has decreased, and this year it fell to 3.5% (242 million items). The slower growth rate of access mail suggests that this market is maturing and that the majority of customers who are able to switch to using access mail have now done so.

The majority of access mail is transactional mail, such as bank statements and bills, and advertising mail sent from businesses to consumers. Standard-sized letters account for the bulk of access volumes and revenue. Packets and large letter formats take up a far lower share of volume (12%), but account for a greater proportion of revenue (19%) due to the higher unit price associated with their larger size. (Figure 6.8)

**Figure 6.8 Access volumes and Royal Mail’s access revenue, by format**

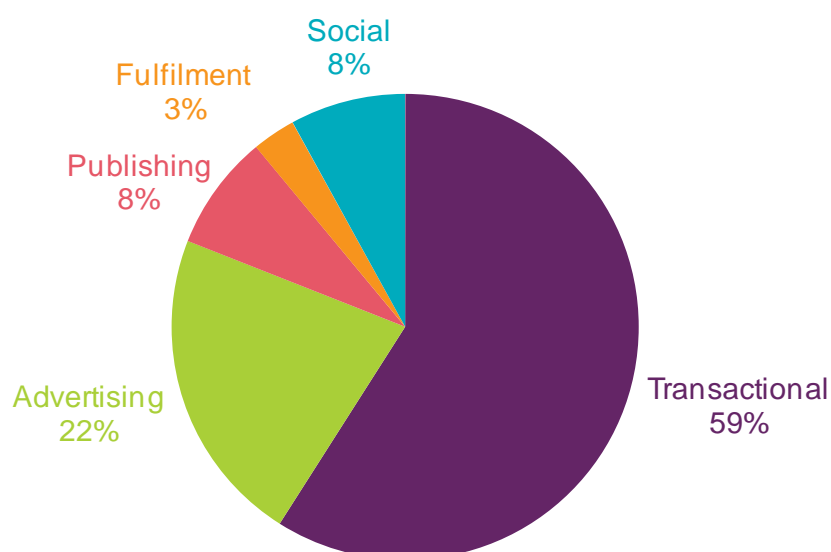


Source: Royal Mail Wholesale, 2011-12

### 6.2.3 Applications of mail

Four main applications are the main drivers of mail volumes: advertising, transactional (for example, bank statements and utility bills), publishing (such as subscriptions) and fulfilment (such as the delivery of goods ordered online). Figure 6.9 shows the estimated proportion of each application within the mix of mail.

**Figure 6.9 Applications of mail, by volume**



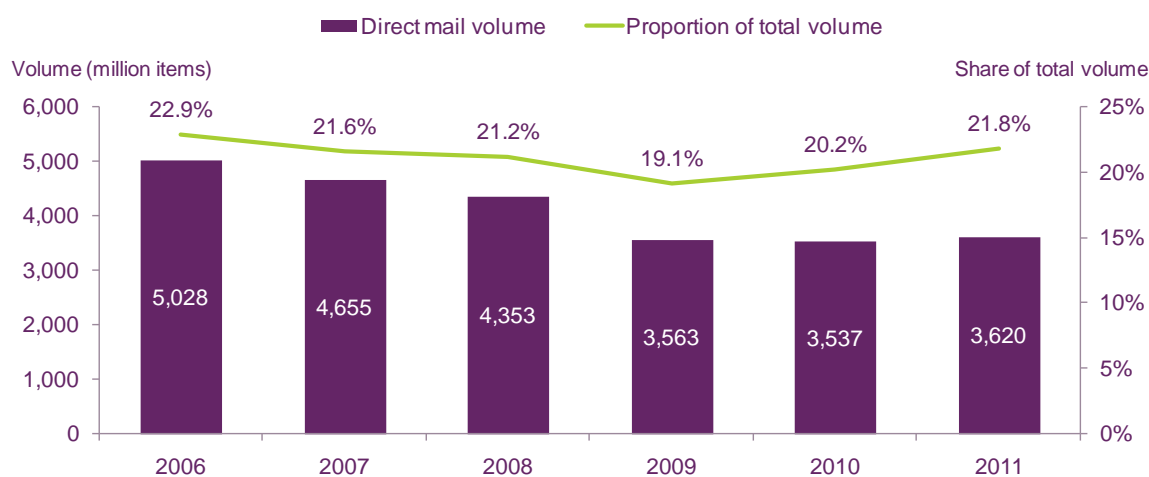
Source: Ofcom estimates

## Direct mail volumes have remained steady as its share of total volume increases

After consecutive years of decline between 2006 and 2010 (including a year-on-year decline of 18% between 2008 and 2009), direct mail volumes remained broadly stable between 2010 and 2011 (Figure 6.10). This may be driven partly by the relatively slower rate of price increases for Royal Mail's Advertising Mail product, in comparison to other bulk mail products.

Direct mail is a key use of mail, accounting for around a fifth of total mail volume. The stable volumes of direct mail in recent years and the fall in total mail volumes mean that direct mail now accounts for a marginally larger share of total mail than it has done for several years.

**Figure 6.10 Direct mail volume and proportion of total mail 2006-2011**



Source: Mediatel, Royal Mail Regulatory Statements

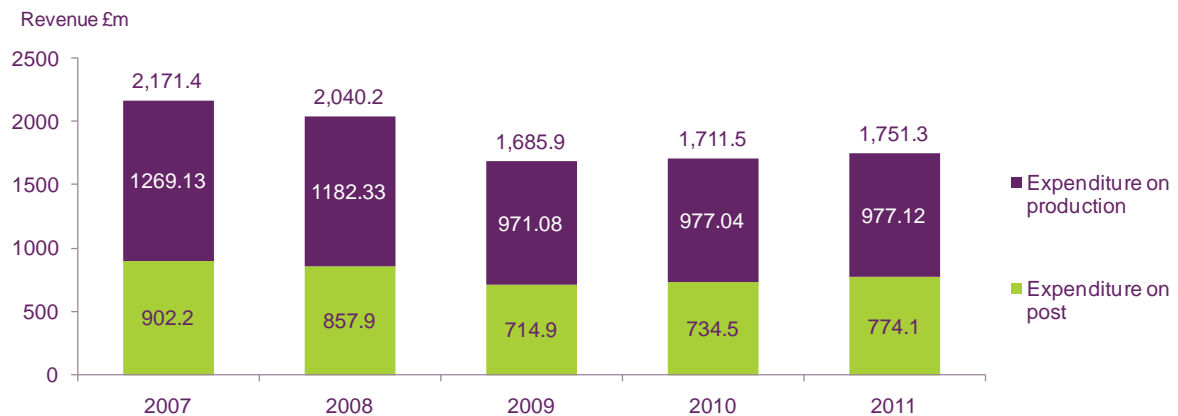
## Expenditure on direct mail has remained stable

Expenditure on direct mail remained stable at £1.7bn in 2011, reflecting the general trend in direct mail volumes shown in Figure 6.10. Since 2009, spend on the production of direct mail has remained broadly the same, while spend on post has seen small nominal year-on-year increases, rising to £774m in 2011. (Figure 6.11) Expenditure of post accounts for 44% of total spend on direct mail. Although total expenditure has stabilised in recent years, after periods of decline, direct mail's share of media advertising has fallen from 12.7% in 2007 to 10.7% in 2011.<sup>161</sup>

<sup>161</sup> An overview of the total UK advertising expenditure by category can be found in Figure 4.9 of this report.



**Figure 6.11 Spend on direct mail production and postage: 2007-2011**

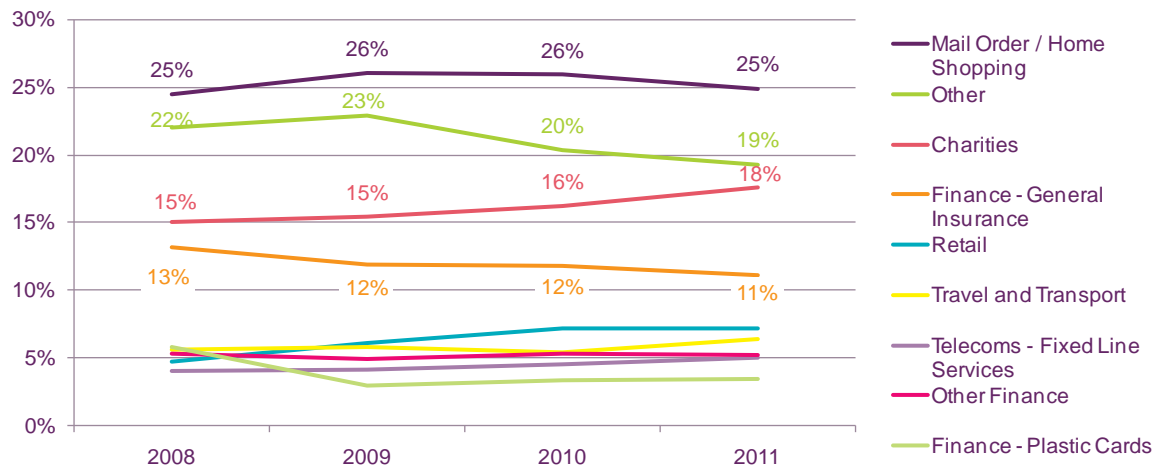


Source: Mediatel. Figures are nominal.

**Home shopping companies have the greatest share of direct mail spend, but charity organisations' spend is rising**

As Figure 6.12 shows, home shopping companies continued to account for the largest share of direct mail expenditure by sector, claiming 25% of spend in 2011. This is possibly due to the higher costs associated with mailing larger promotional items such as catalogues and brochures. The share of direct mail spend accounted for by financial services, particularly those offering insurance and credit cards, has fallen in recent years. The share of direct mail spend by charity organisations increased by 3pp between 2008 and 2011, making up 18% of total direct mail expenditure in 2011.

**Figure 6.12 Share of direct mail expenditure, by sector**



Source: Nielsen Addynamix

**The value of the UK e-retail market has continued to grow, reaching £68bn in 2011**

According to statistics from the Interactive Media in Retail Group, the value of online shopping in the UK grew by 15.6% year on year in 2011 and is now worth £68bn. (Figure 6.13) In the past five years, the value of online shopping has almost doubled, rising by 93% between 2007 and 2011. The convenience of shopping from home, the increase in

broadband take-up and consumers' increased confidence in online shopping has attracted customers and retailers to the channel.

**Figure 6.13 Value of online shopping in the UK: 2000-2012**



Source: *Interactive Media in Retail Group*

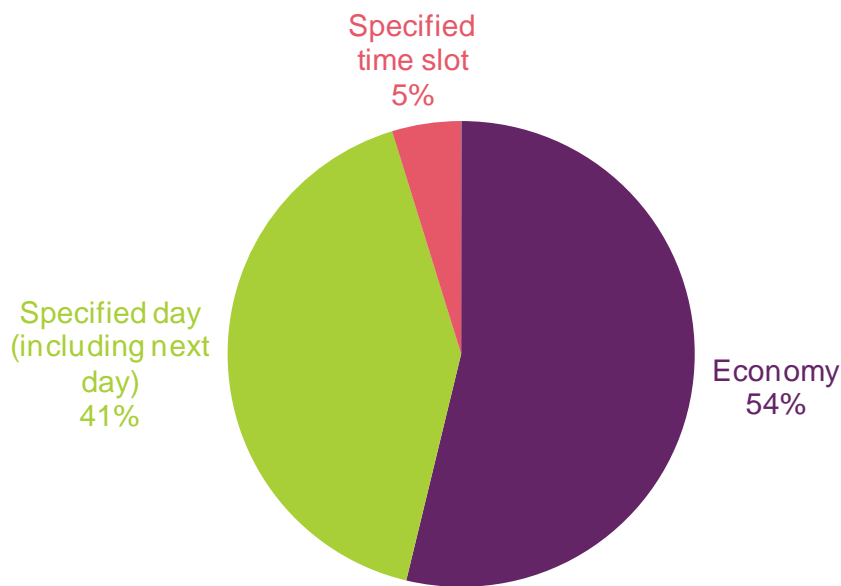
Although it is clear that growth in e-retail will lead to an increase in fulfilment mail, this increase does not directly translate into growth in volumes and growth in revenue. Items which can be fulfilled electronically as well as physically, such as music and other media, are also included in the Interactive Media in Retail Group (IMRG) online shopping estimates. In contrast to the 15.6% growth in the value of the e-retail market, Royal Mail stated that its packet volumes grew 6% between 2010-11 and 2011-12.<sup>162</sup>

### **Economy services are the most popular types of service used for the fulfilment of e-retail orders**

Looking at the proportion of service types used for the fulfilment of e-retail orders delivered in the UK, it is clear that economy services are the most popular, accounting for a 54% share (Figure 6.14). The popularity of these services is likely to be due to customers preferring the free-delivery options offered by retailers, and avoiding the premiums charged for next-day and specified-day deliveries. It is likely that the majority of economy services will be provided by Royal Mail. Nevertheless, specified-day services (including next-day services) are also popular, accounting for 41% of services, suggesting that customers are willing to pay for the convenience. Specified time slot deliveries (including deliveries before midday) attract a share of 5%, perhaps due to the relatively small amount of carriers offering this and the higher price of this service.

<sup>162</sup> Royal Mail Group Annual Report and Financial Statements, 2011-12

**Figure 6.14 Proportion of service types used for the fulfilment of e-retail: April 2012**



Source: IMRG/Metapack Delivery Index April 2012  
 Note: Proportions rebased to exclude international

**Residential consumers claim to receive more parcels than they send**

The effects of e-retail and home shopping can be seen in the difference between the number of parcels which residential consumers send and receive each month. As Figure 6.15 shows, 64% of consumers claim to receive one or more parcels each month, compared to 19% of consumers who send one or more parcels. These figures indicate that more parcels are sent by businesses than consumers, and the fulfilment of orders placed online contributes to this.

**Figure 6.15 Number of parcels sent and received each month by residential consumers**

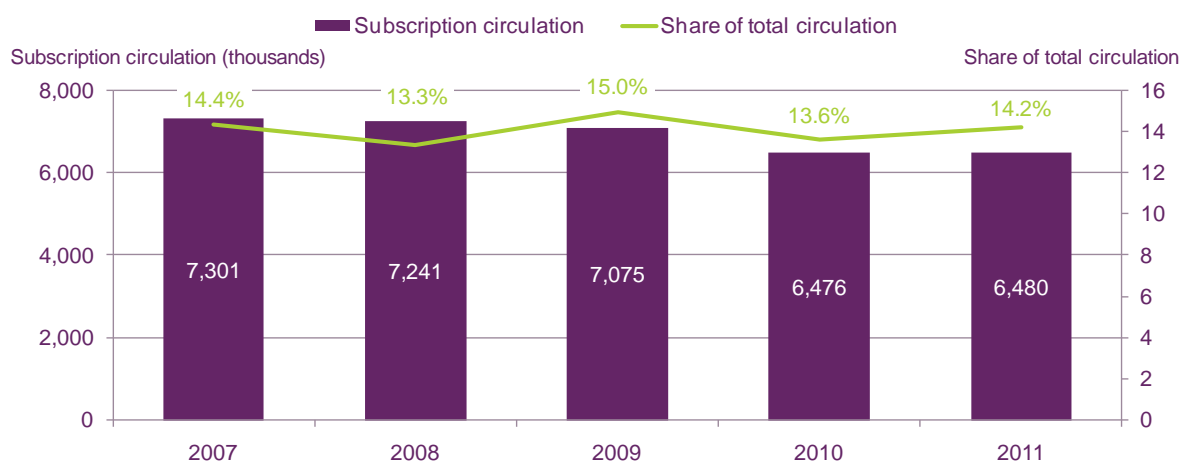


Source: Ofcom Post Omnibus 2011 - fieldwork 1st Dec – 13th Dec 2011  
 Base: All consumers responsible for sending or receiving post (n= 3621) Q: Please now think about the parcels you send. How many parcels do you send in an average month? \*Assuming those saying 'don't always send one each month' send 1 parcel every 3 months; Q: 'Approximately how many parcels do you receive on average in a month?'\*assuming those saying 'don't always receive one each month' receive 1 parcel every 3 months

## Magazine subscription volumes

Over the five-year period 2007-2011, the net average circulation of magazine subscriptions has fallen by 11.2%. (Figure 6.16) Figures from 2010 and 2011, however, suggest that this figure may be stabilising at about 6.5 million. Although subscription circulation has fallen, this is in line with a general decline in magazine print circulation, accounting for approximately 14% of print volumes across the five-year period.

**Figure 6.16 Magazine subscription volumes: 2007-2011**



Source: Mediatel/ABC, 6-monthly net average circulation subscription sales 2007-2011

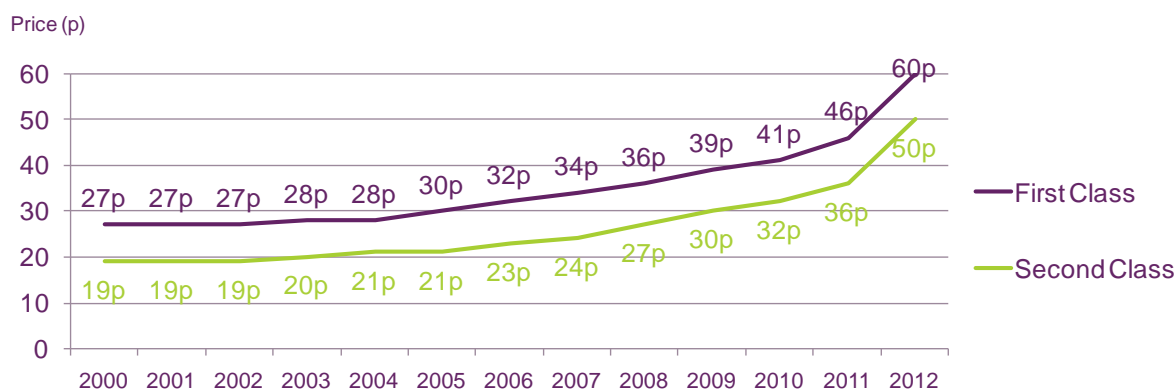
## 6.2.4 Stamp prices

### First Class stamp prices increased by 14p to 60p

The prices for sending individual letters and postcards have increased every year since 2004. Until 2006, however, the increases in stamp prices did not keep pace with inflation. The largest increase in stamp prices took place in 2012 as both First and Second Class stamps rose by 14p; to 60p and 50p respectively.

The regulatory framework implemented by Ofcom in March this year removed price controls from Royal Mail's products generally and imposed a safeguard cap of 55p on Second Class stamp prices for the next seven years. Taking advantage of the greater commercial freedom granted by the new regulatory framework, Royal Mail increased its prices. (Figure 6.17)

**Figure 6.17 Royal Mail First and Second Class stamp prices: 2000-2012**



Source: Royal Mail. Figures are nominal



## 6.3 Post and the residential consumer

### 6.3.1 Introduction

This section of the report includes the results of a face-to-face survey of UK residential consumers, conducted in December 2011. In total 3,615 UK adults with responsibility for their household's post were interviewed.

Ofcom is currently conducting further research among users of the postal service across the UK, which will allow us to report further on the experiences of business and residential users of the postal services, including those in remote locations.

Key points in this section include:

**Almost half of residential postal users in the UK said they use First Class stamps all of the time.** This is despite only one in ten saying that all of their mail needed to arrive the day following posting.

**Consumers receive more post than they send.** Adults in the UK claim to receive an average of 8.5 letters or cards in an average week, compared to an average of approximately 3.2 letters or cards sent in an average month. This illustrates that residential consumers send less than 10% of mail in the UK.

**Consumers aged 45 and over are more likely to send more post.** Fifty-two per cent of adults aged 65-74 send three or more letters a month, compared with 18% of 16-24s. In the 16-24 age group, 48% either don't, or don't always, send letters each month, compared to around a quarter of adults aged 45+.

**Among residential consumers, more post is sent for social than for formal reasons.** Consumers are more likely to send social mail - invitations, birthday cards and postcards (58% say they send these at least once a month) - than more formal types of mail such as legal, medical or insurance documents, or payment of bills (43% say they send these).

**One in five adults in the UK sends at least one parcel a month.** Around one in five adults claim to send one or more parcels each month (19%). Half claim to send parcels less frequently, while the remaining three in ten consumers (30%) do not send parcels at all.

### 6.3.2 How consumers' use of post fits in with other methods of communication

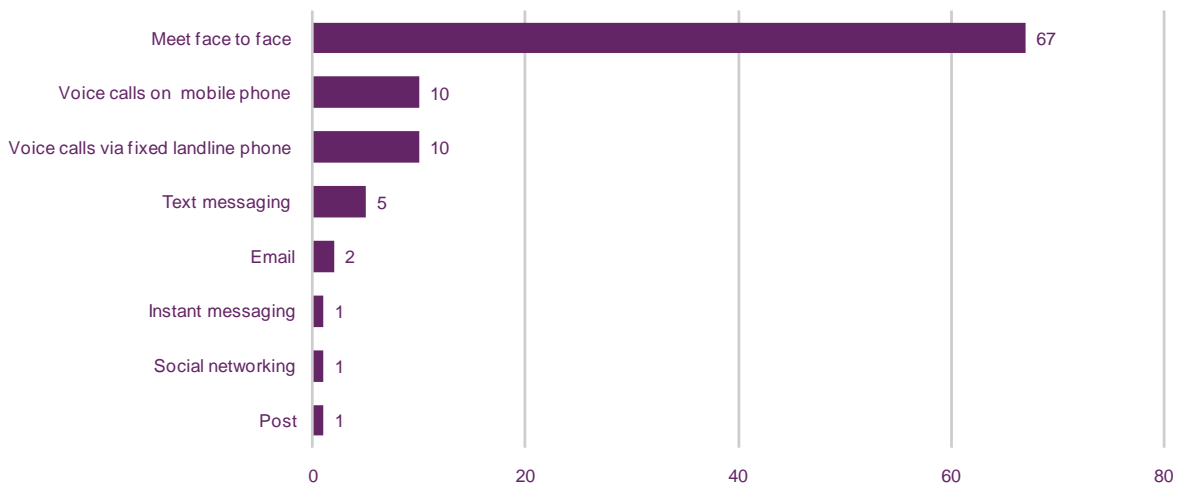
**As a preferred method of communication, post is as popular as instant messaging and social networking**

In addition to specific research into consumers' use of post, we have undertaken research into the use of communications services in the UK. This research was commissioned in February/ March 2012 and 2,012 UK adults aged 16+ were interviewed.

The survey found that face-to-face is by far the preferred means of personal communication with friends and family, with 67% preferring to communicate in this way. Post was the preferred method of communication for 1% of respondents, on a par with social networking and instant messaging. (Figure 6.18)

### Figure 6.18 Preferred method of communication with friends and family

% of adults who communicate with friends and family



*Q5a: If you had to pick one method of communicating with friends and family which one would it be?*

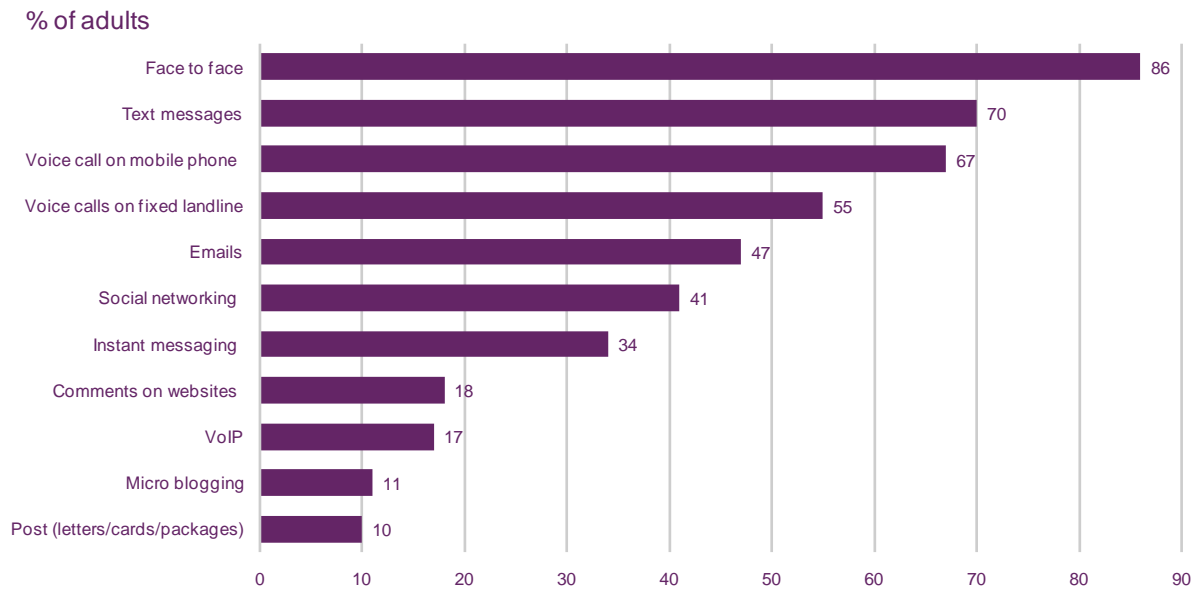
*Source: Use of communication services research, 2012*

*Base: all who ever use at least one form of communication: Friends and family, n= 2007.*

#### **10% of adults use post on a weekly basis**

The use of communications on a weekly basis is broadly consistent with stated preferences, as Figure 6.19 shows. One in ten adults use post on a weekly basis to keep in touch with friends and family. For the same question on a daily basis, use of post stood at 1%.

**Figure 6.19 Methods used at least once a week to communicate with friends and family**



Source: *Use of communication services research, 2012*

Q2a: *How often do you use x to communicate with friends and family?*

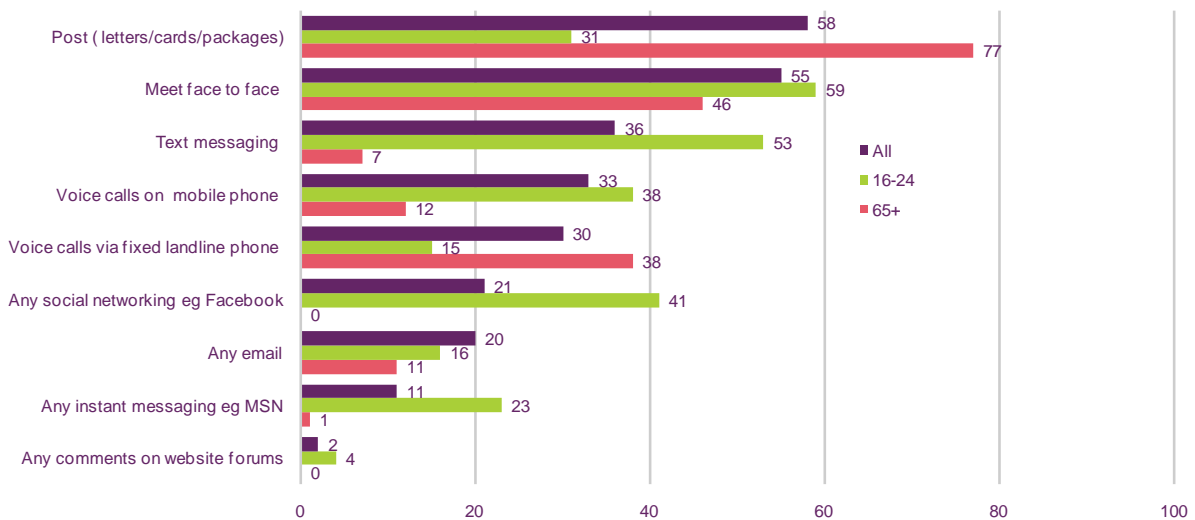
Base: *UK adults aged 16+, n = 2012*

**Post is the preferred way to send a greeting – although for 16-24 year olds it is less popular than text messages and social networking**

However, when it comes to communicating in different circumstances, post is more widely used. Over half (58%) of respondents frequently use post when it comes to greetings such as birthdays. In the case of those aged 65+, three-quarters (77%) use post to send letters, cards or packets when they send a greeting. This is a contrast to those aged 16-24 where use of post to send greetings is far less common (31%), falling behind electronic means of communication such as social networking (41%) and text messaging (53%). (Figure 6.20)



**Figure 6.20 Communication methods ever used to send greetings (e.g. birthdays)**



Source: Use of communication services research, 2012

Q3a: ...which of these methods do you ever use to send greetings for occasions such as birthdays, get well, congratulations etc.

Base: All UK adults aged 16+ who communicate with friends and family, n = 2007

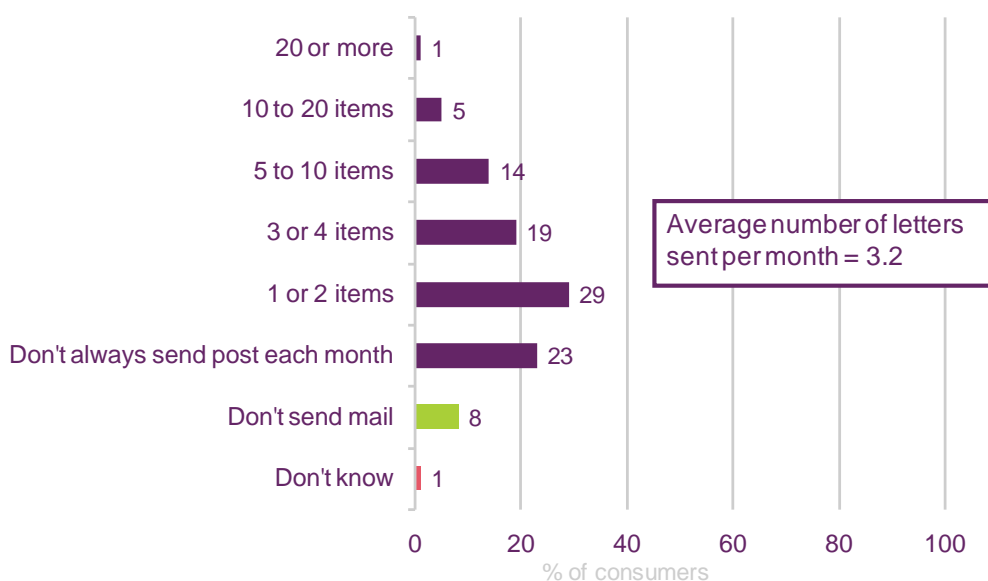
### 6.3.3 Sending and receiving post

#### More post is sent by residential consumers for social than for formal reasons

The post omnibus found that adults in the UK claim to send an average of 3.2 letters or cards in an average month (Figure 6.21). Consumers attributed this to a general increase in online and telephone communication for both social and formal uses.

Consumers are more likely to send social mail, such as invitations, birthday cards and postcards (58% say they send these at least once a month) than to more formal types of mail such as legal, medical or insurance documents or payment of bills (43% say they send these).

**Figure 6.21 Approximate number of letters and cards sent per month: personal mail**



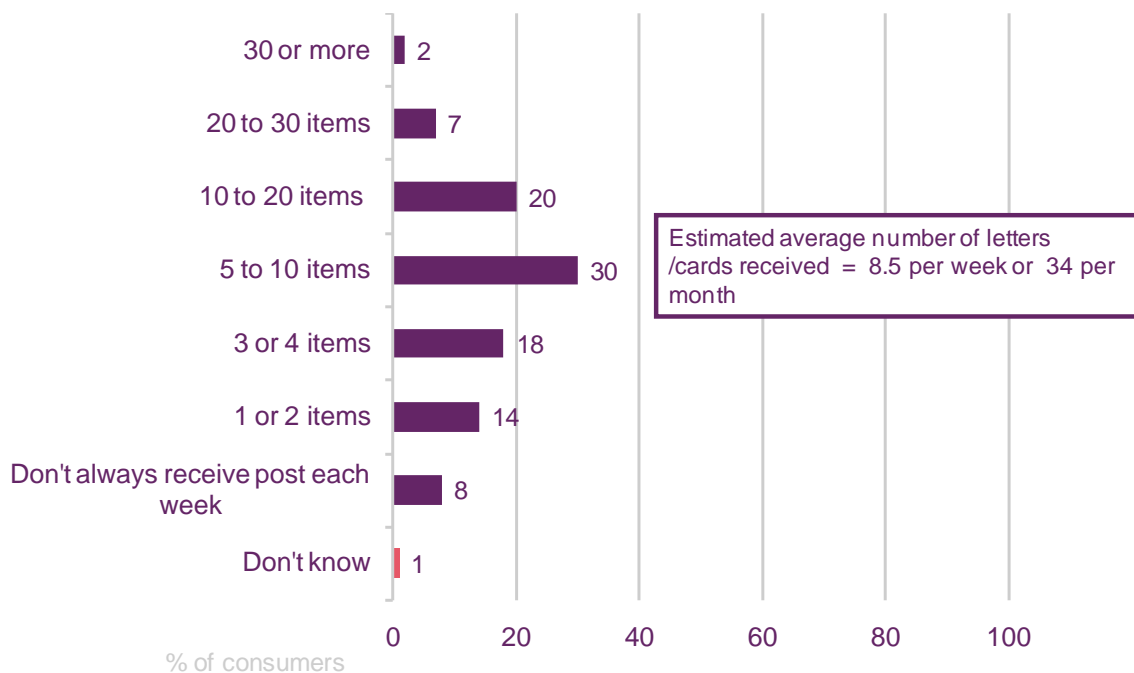
Source: Ofcom Post Omnibus 2011 - fieldwork 1st Dec – 13th Dec 2011

Base: All consumers responsible for sending or receiving post (n= 3621) Q: Approximately how many letters and cards, do you personally send in an average month? This should exclude any items you send from home in connection with running a business, if you do this from home. We will ask about parcels separately.

### Consumers receive more post than they send

Adults in the UK claim to receive an average of 8.5 letters or cards in an average week (Figure 6.22) compared to an average of approximately 3.2 letters or cards sent in an average month. This difference is due to the fact that the majority of UK mail is sent by businesses to households. This is borne out by consumer claims that the majority receive mail from businesses at least once a month, e.g. formal mail such as bills, legal, or medical letters (91%), advertising mail (67%) or magazines, catalogues and newspaper (57%). In comparison, 44% say they receive social types of mail like invitations, birthday cards or postcards each month.

**Figure 6.22 Approximate number of letters and cards received per week**

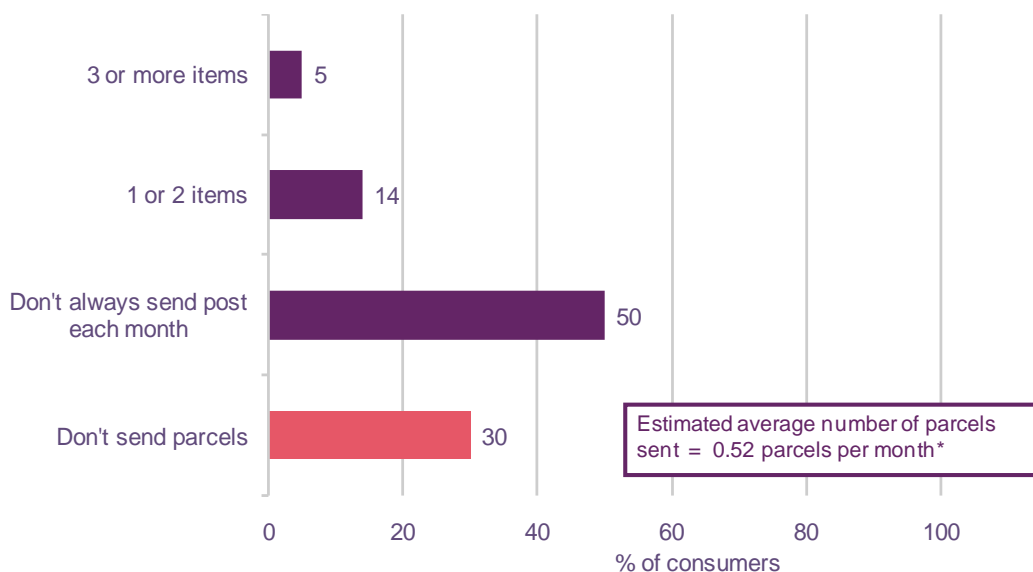


Source: Ofcom Post Omnibus 2011 - fieldwork 1st Dec – 13th Dec 2011  
 Base: All consumers responsible for sending or receiving post (n= 3621) Q: Approximately how many letters or cards do you receive in an average week? Please don't include parcels, we will ask you about these separately.

**One in five adults in the UK send at least one parcel a month**

Around one in five adults claim to send one or more parcels each month (19%) (Figure 6.23). Half claim to send parcels less frequently, while the remaining three in ten consumers (30%) do not send parcels at all.

**Figure 6.23 Approximate number of parcels sent per month: personal mail**

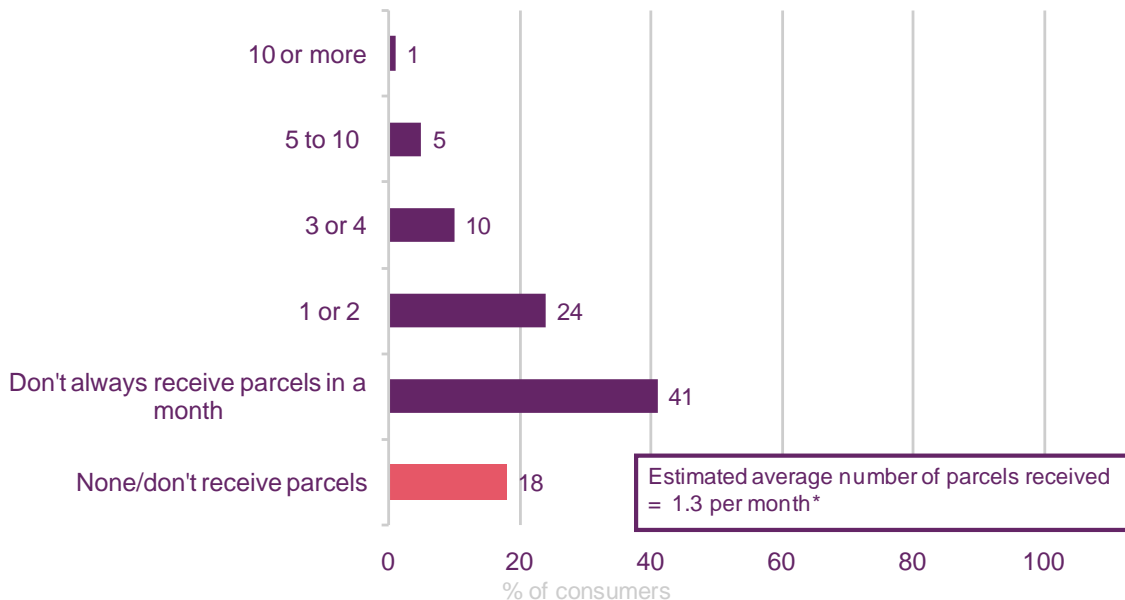


Source: Ofcom Post Omnibus 2011 - fieldwork 1st Dec – 13th Dec 2011  
 Base: All consumers responsible for sending or receiving post (n= 3621) Q: Please now think about the parcels you send. How many parcels do you send in an average month? \*Assuming those saying 'don't always send one each month' send 1 parcel every 3 months

## Adults in the UK receive an average of 1.3 parcels per month

Across the UK, in recent years, the volume of parcels delivered to households has been increasing as consumers have ordered more items online for delivery to their homes. The number of packages received by people varies considerably; with a substantial minority (16%) receiving three or more parcels per month and just under one-third saying they never receive parcels (30%). (Figure 6.24)

**Figure 6.24** Approximate number of parcels received per month: personal mail



Source: Ofcom Post Omnibus 2011 - fieldwork 1<sup>st</sup> Dec – 13<sup>th</sup> Dec 2011

Base: All consumers responsible for sending or receiving post (n= 3621) Q: 'Approximately how many parcels do you receive on average in a month?'\*assuming those saying 'don't always receive one each month' receive 1 parcel every 3 months

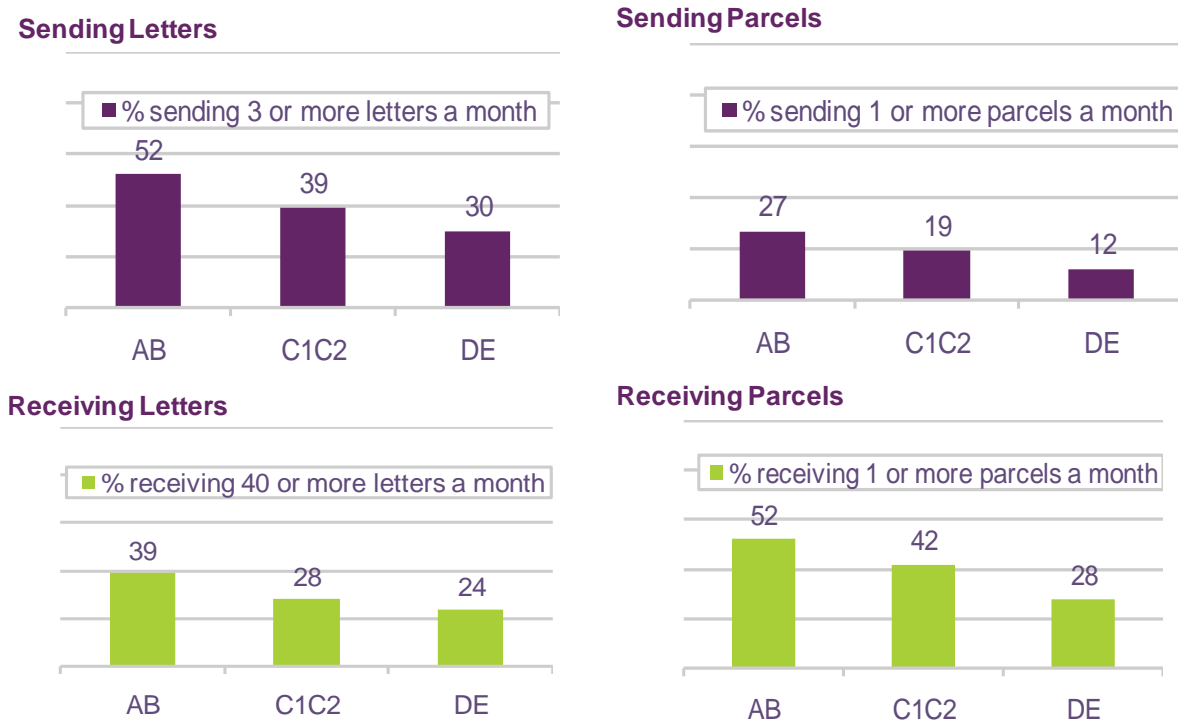
## Use of postal services differs according to demographic factors and location

Demographic analysis shows that claimed high use of the postal service is often underpinned by demographic factors and whether or not consumers live in rural locations. Patterns of use of letters/cards and parcels differ according to various demographic factors, as explored below.

## Consumers in AB social groups send and receive more post

Consumers in socio-economic groups A and B (higher/intermediate managerial, administrative or professional roles) claim to send and receive more letters and parcels than those in other social groups (Figure 6.25). One reason for this, identified in qualitative research, is the fact that they are more likely to use post for social reasons, particularly special occasions such as Christmas and birthday cards, and wedding invitations. Consumers in AB social groups also tended to say they are doing an increasing amount of shopping online, which has increased the amount of packets and parcels they receive.

**Figure 6.25 Use of postal services, by social group**



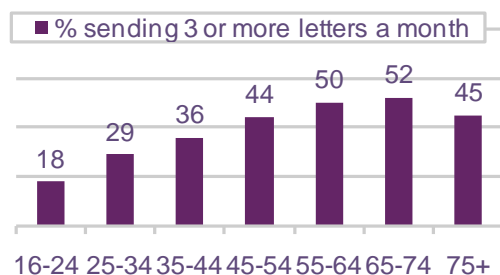
Source: Ofcom Post Omnibus 2011 - fieldwork 1<sup>st</sup> Dec – 13<sup>th</sup> Dec 2011. Base: All consumers responsible for sending or receiving post (n= 3621, AB = 718, C1C2 = 1628, DE = 1269)

**55-74 year olds send and receive high volumes of letters while 35-44 year olds send and receive high volumes of parcels**

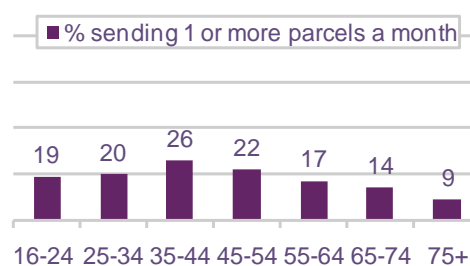
Consumers aged between 35 and 74 send and receive more letters than younger people and the 75+ age group (Figure 6.26). In particular, around half of 55-74 year olds send three or more letters a month and just over one-third of this age group receive 40 or more letters a month. Consumers aged between 35-44 years are more likely than other age groups to send and receive more parcels.

**Figure 6.26 Use of postal services, by age**

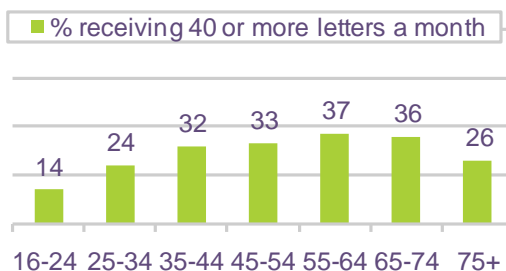
**Sending Letters**



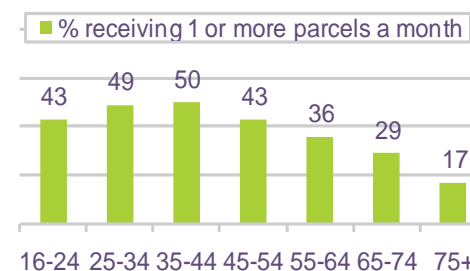
**Sending Parcels**



**Receiving Letters**



**Receiving Parcels**

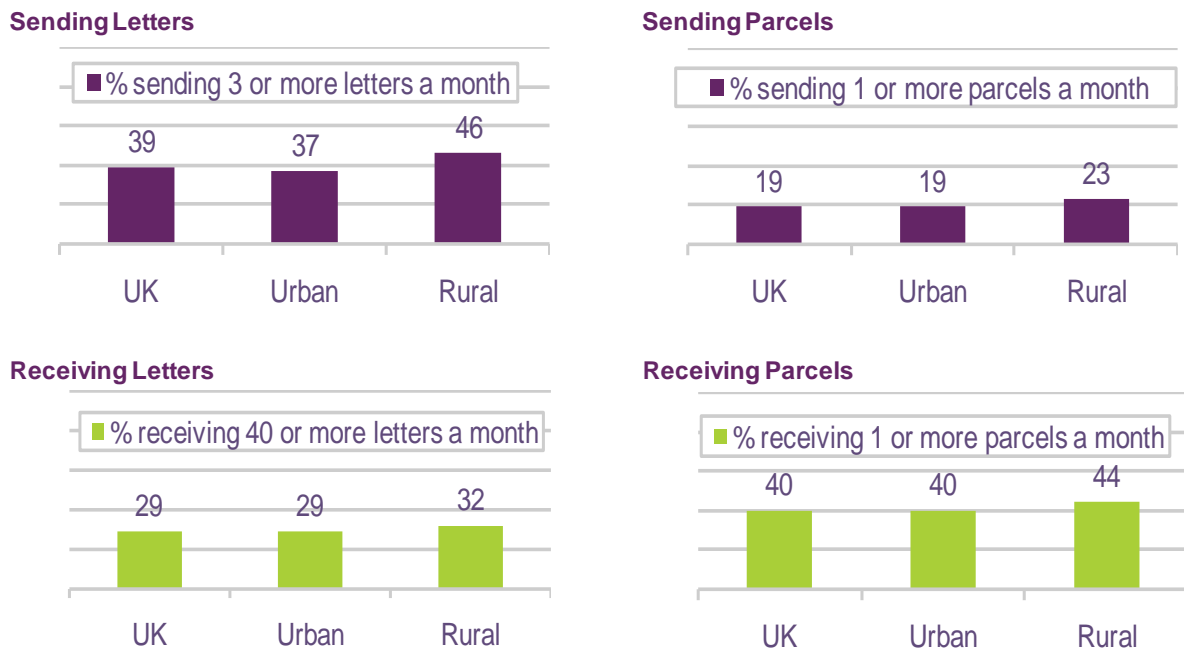


Source: Ofcom Post Omnibus 2011 - fieldwork 1<sup>st</sup> Dec – 13<sup>th</sup> Dec 2011. Base: All consumers responsible for sending or receiving post (n= 3621, 16-24 = 397, 25-34 = 577, 35-44 = 594, 45-54 = 551, 55-64 = 575, 65-74 = 535, 75+ = 386)

**Rural consumers send more letters/cards than urban consumers**

Consumers living in rural locations claim to send more letters each month; 46% of rural consumers said they send three or more letters a month compared to 37% of consumers living in urban areas (Figure 6.27). Such marked significant differences are not seen between rural and urban consumers in terms of sending and receiving parcels. Differences between rural and urban consumers were not particularly strong in the qualitative research and less marked than the other demographic characteristics already mentioned.

**Figure 6.27 Use of postal services, by urban or rural location**



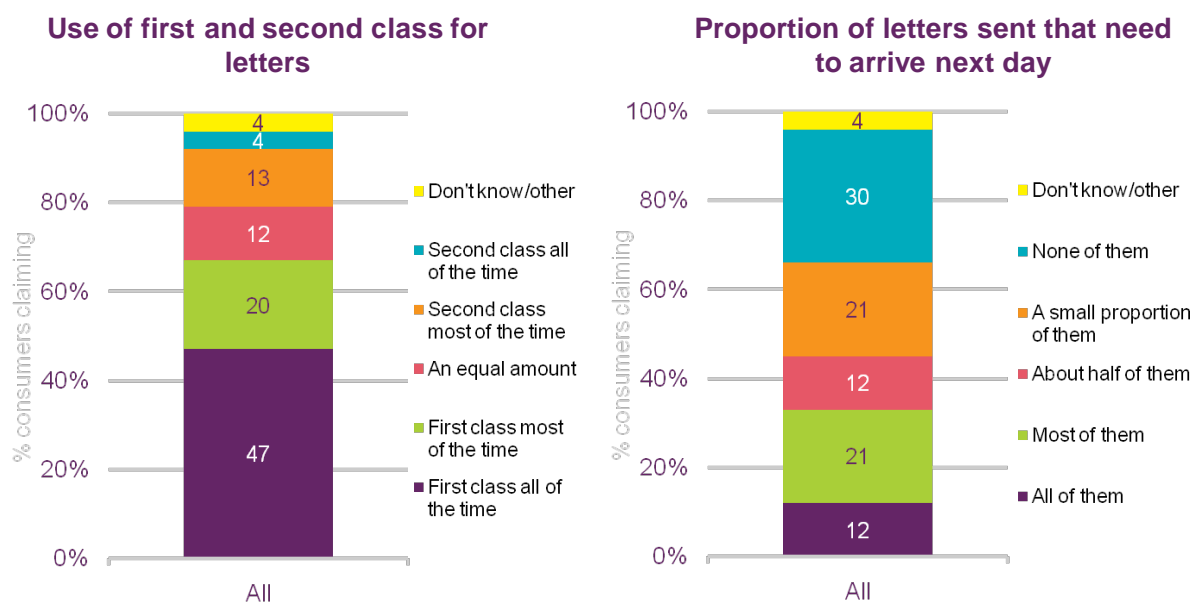
Source: Ofcom Post Omnibus 2011 - fieldwork 1<sup>st</sup> Dec – 13<sup>th</sup> Dec 2011. Base: All consumers responsible for sending or receiving post (UK= 3621, Urban = 2945, Rural = 594)

### 6.3.4 Stamps

#### Almost half of consumers in the UK use First Class stamps all of the time

Two-thirds (67%) of postal users in the UK said that they use First Class stamps more than Second Class stamps and almost half (47%) said that they use First Class all the time (Figure 6.28). This is despite the fact that only a minority say their mail has to arrive the next day, with 12% saying that all of their mail needs to arrive next day, and 21% saying that most of it does.

**Figure 6.28 Use of First and Second class post**



Source: Ofcom omnibus research, December 2011

Base: All adults aged 16+ with responsibility for post in (n = 3616) Q. When sending letters/ cards which do you use? And what proportion of these letters/cards have to be at their destination the next working day?

Demographic analysis finds that *within* each subgroup based on age, gender, social group, ethnicity, and having a disability, a higher proportion claim to use First Class stamps all/most of the time than claim to use Second Class stamps all/most of the time.

However, some sub-groups are more likely than other sub-groups to say they tend to use Second Class often; for example, more consumers aged 55 or over say this, ABs are more likely to say this than those in the other social groups, those with a long-term illness or disability are more likely to say this than those without, and White British consumers are more likely to say this than those in a minority ethnic group.

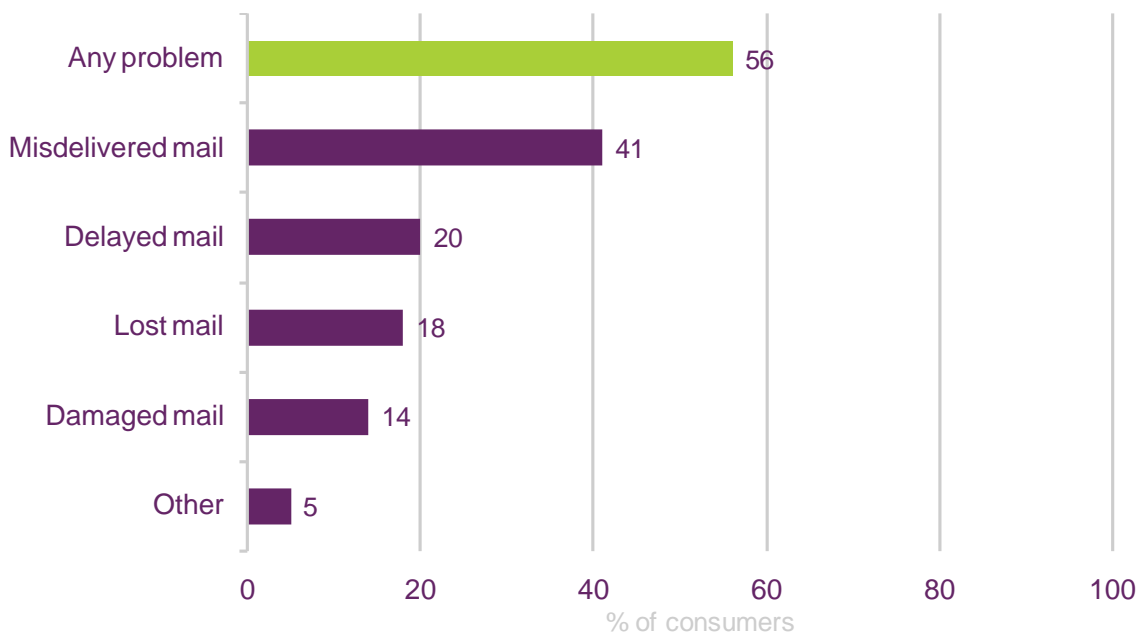
### 6.3.5 Problems and frustrations with the postal service

#### Over half of residential consumers have had a problem with their postal service in the past year

In the quantitative research, 56% of adults said they had experienced some sort of problem with the service they had received from Royal Mail in the past year. The most prevalent issue, chosen from a list of options, was mail delivered to the wrong address, with four in ten adults having experienced this (41%). Delayed mail (20%) and lost mail (18%) were mentioned by around two in ten adults (Figure 6.29).



**Figure 6.29 Problems with postal service in the past year**



Source: Ofcom Post Omnibus 2011 - fieldwork 1st Dec – 13th Dec 2011

Base: All consumers responsible for sending or receiving post (n= 3621) Q: In the last 12 months have you experienced problems with Royal Mail's service in terms of...(read out item)?'

### 6.3.6 Attitudes towards the postal service

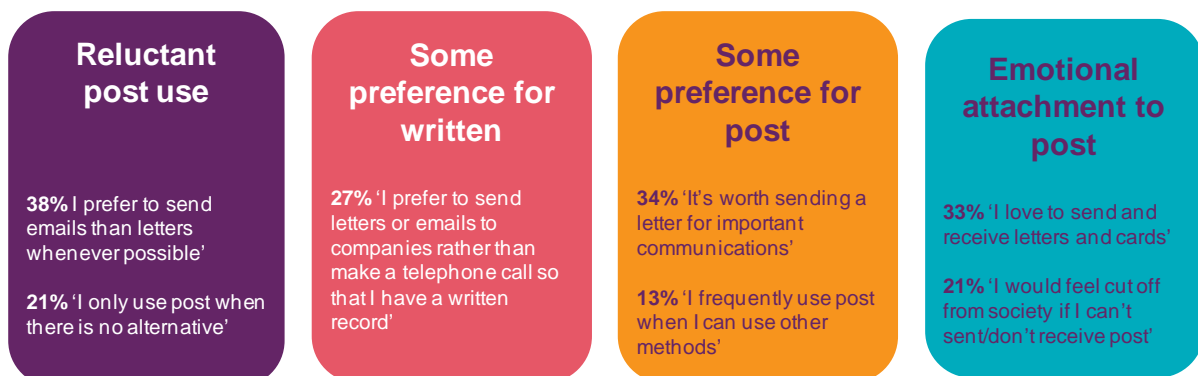
#### Four in ten adults use post only when there is no alternative

The omnibus research indicates the range of attitudes and feelings towards the postal service. For example, one in five adults (21%) in the UK agree that they use post only when there is no alternative, although a similar amount (21%) say that they would feel cut off from society if they could not send or receive post. Some consumers state that written communications have benefits over calls (27%) and one-third (34%) stated that it is worth sending a letter for important communications.

**Figure 6.30 Agreement with statements about post**

% of people saying that a statement applies to them.

NB percentages add to more than 100% as more than one statement can apply to a respondent.



Source: Ofcom omnibus research, December 2011

Base: All adults aged 16+ with responsibility for post (n = 3615) Q. Which of these statements applies to you? (List of statements on a showcard)